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DEPARTMENTS OF COMMERCE, JUSTICE, STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

H.R. 4782

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF COMMERCE, JUSTICE, STATE, THE JUDICIARY, AND RELATED AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1989, AND FOR OTHER PURPOSES

PART 2 (Pages 1-750)

DEPARTMENT OF COMMERCE
DEPARTMENT OF STATE
NONDEPARTMENTAL WITNESSES
OFFICE OF U.S. TRADE REPRESENTATIVE

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE

87-717 O WASHINGTON : 1988

5181-5

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

THURSDAY, APRIL 28, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:48 a.m. in room 146, the Capitol, Hon. Ernest F. Hollings (chairman) presiding.

Present: Senators Hollings, Bumpers, Sasser, and Kasten.

DEPARTMENT OF STATE

SUBCOMMITTEE RECESS INTO CLOSED SESSION

Senator HOLLINGS. The subcommittee will come to order.

STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF STATE

ACCOMPANIED BY:

RONALD I. SPIERS, UNDER SECRETARY FOR MANAGEMENT
J. EDWARD FOX, ASSISTANT SECRETARY FOR LEGISLATION AND INTERGOVERNMENTAL AFFAIRS
CHARLES E. REDMAN, ASSISTANT SECRETARY FOR PUBLIC AFFAIRS
ROBERT E. LAMB, ASSISTANT SECRETARY FOR DIPLOMATIC SECURITY
RICHARD S. WILLIAMSON, ASSISTANT SECRETARY FOR INTERNATIONAL ORGANIZATION AFFAIRS
ROGER B. FELDMAN, COMPTROLLER

Senator RUDMAN. I move that we go into closed session to discuss certain classified matters with the Secretary.

Senator HOLLINGS. I second the motion.

Without objection, so ordered.

[The subcommittee went into closed session.]

OPEN SESSION

BUDGET REQUEST

Senator HOLLINGS. Now that we have the classified matters behind us, for the rest of this morning the subcommittee will continue our review of the 1989 budget estimates by looking at the request of the De-

partment of State. The total amount requested by the Department is $2,748,917,000, an increase of $60,742,000 over the 1988 appropriations.

INTRODUCTION OF WITNESSES

We are pleased to have with us this morning the Secretary of State, the Honorable George P. Shultz, who has just returned from Moscow. The Secretary is accompanied by the Under Secretary for Management, Ronald Spiers; the Assistant Secretary for Diplomatic Security, Robert Lamb; the new Assistant Secretary for International Organization Affairs, Richard Williamson; and the Comptroller, Roger B. Feldman.

In closed session, the committee has covered security matters with respect to the Department and the Moscow Embassy; and we appreciate very, very much the outstanding job—the impossible job—that you are doing. I don't see how you keep up with it, Mr. Secretary.

Your statement in its entirety will be included in the record, and you can highlight it as you wish.

STATEMENT OF SECRETARY SHULTZ

Secretary SHULTZ. Thank you, Mr. Chairman. I think the thing to do is not to read this 33-page statement, but simply to make a few comments about it and then have discussion and questions.

Let me just say at the outset that I think we are right now in an extraordinary moment in foreign affairs. We see lots of problems around that we have to be concerned about and try to resolve; and we also see immense opportunities.

I think, as a general proposition, we see that the basic ideas of freedom and openness, of markets as a way to operate economic systems—all of these ideas that we have stood by and stood for over the years are being recognized as the right ideas; and we see it all over the world.

So, we live in a moment of great opportunity for our way of looking at things; and, therefore, it is a time when we have to equip ourselves as well as we can to play this winning hand.

In saying that, I don't mean to minimize the problems and the difficulties, but just to say that there is a great deal that we can do.

FOREIGN AFFAIRS POSTURE

In my statement, there is an initial portion that talks about our foreign affairs posture generally. It talks about East/West relations, coming up to date in our negotiations and work with the Soviet Union where, of course, there is a great deal of publicity about arms control matters; and they are important, and we are doing important things there.

But we also have a major agenda in the field of human rights where a lot is going on—regional issues and our own bilateral matters. We discussed here in the closed session briefly the possibility of opening a small consulate in Kiev.

So, there are a great many things in that regard that are talked about in the statement.

MIDDLE EAST

I make some comments on the Middle East, which certainly is an area of great problems. We have an initiative in the Arab-Israeli dispute area, which we will continue to push. And, of course, we watch developments very carefully in the Iran-Iraq war, and try to do our part in dealing effectively with it.

CENTRAL AND SOUTH AMERICA

We have a section in here on Central America and South America. There are positive developments there, as well as the very troublesome ones that are connected with the emergence very strongly of drug trafficking as infiltrating important units of society. We have seen the problem with Panama. Of course, we see the difficulties Colombia is in and many other countries as we work on that problem.

At the same time, I think that our problems with Nicaragua are now in a kind of a political stage. But nevertheless we see the Nicaraguan Communist regime tending to draw back as it has often done from commitments that it has made; and the problem is how do you keep their feet to the fire when the United States has decided that we won't provide continuing military support for the freedom fighters in Nicaragua? It is a difficult problem. We will do our best with it, but it is hard.

ASIA-PACIFIC AREA

We have important developments in Asia across the board. It is an extremely interesting, important area of the world. It is rapidly growing. Its contribution to world GNP is growing. And our trade with the Asia-Pacific area has grown tremendously; it exceeds that with Europe now. It has for some years.

So, it has been an important area of emphasis for our foreign policy; and on the whole, things have been going in a very favorable way from our standpoint there.

FOREIGN AFFAIRS BUDGET

Turning to our foreign affairs budget, overall we seek $18.1 billion in the 150 account across the board to serve all of those functions. That is completely in line with the budget summit agreement.

Because it is in line with the budget summit agreement, it is 2.9 percent less than the actual amount appropriated in fiscal year 1987, when you include the Central American portion of the supplemental.

And keeping in mind that the value of the dollar has declined overseas, the real value of the resources that we plan to commit to foreign affairs in fiscal year 1989 are worth less than this year's amount.

So, we are struggling with very genuine budget constraints.

Insofar as the State Department's operations are concerned, we request appropriations of approximately $2.75 billion as you said. That is a 1.8-percent increase in nominal dollars, well within the limits of the budget summit agreement.

Our request covers four categories of appropriations: the administration of foreign affairs, international organizations and conferences, international commissions, and other appropriations.

I won't read through this, but it is detailed; and in the budget submission, it is presented in great detail. There are a few things that I would like to highlight.

EMBASSY SECURITY

First of all, we did have a considerable discussion in the closed session about security matters having to do with embassy security and also personnel security.

There are about 10 pages in here that describe the very energetic program that we have mounted in the Department of State on these matters. I won't go through it further, but I would just call attention to it.

CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS

We have a major problem, Mr. Chairman, in our contributions to international organizations because we are falling further and further behind. Our appropriations, while large, don't come up to the obligations we have under the various formulas; and the result is that our cumulative shortfall by the end of 1989 will be a record high of over $500 million. And that is a threat to our posture.

What we are doing about it is looking carefully at the different organizations to which money flows and trying to sort them out as to how crucial they are to the interests of the United States, and how well managed we think they are. Some we fund at the 100-percent level and others at a somewhat lesser level and others at a much lesser level than that.

We do think it is unfortunate, to put it mildly, that we are falling so far behind. It is a threat to our capacity to operate effectively in these organizations.

FOREIGN AFFAIRS TRAINING CENTER

Within the Department, there is one program that I would like to single out particularly; and that is the Foreign Affairs Training Center. As you know, we have been working with this for some years to establish a place that is especially dedicated to our training operation, much as other departments of the Government have done. It is long overdue.

Our Foreign Service Institute is an excellent unit. I have been looking at it myself, spending a considerable amount of time on it. We now have the possibility of getting ourselves a facility that will make it more effective; and the funding is budgeted in here. I think it is very important to press on with that.

Senator HOLLINGS. What is the level of funding for the new center?

Secretary SHULTZ. The level of funding that we asked for for this fiscal year is $30 million. Approximately, I think the same will wind up completing that. The site, the drawings, and everything are in hand; and we now are going about the task of constructing the buildings basically.

[The prepared statement of Secretary Shultz follows:]

PREPARED STATEMENT OF HON. GEORGE P. SHULTZ
SECRETARY OF STATE

Mr. Chairman, I am pleased to come before the Committee to discuss our FY 89 budget request. It is an austere request that complies with both the letter and the spirit of the Budget Summit compromise. If this Administration and the coming Administration are to do the job we must do in today's turbulent, complex and changing world, we will need every cent we are asking for -- and we will need much greater latitude in applying those appropriated funds.

For the sake of our national well-being and for the sake of our most cherished values, America must remain a fully engaged force around the globe for peace, prosperity, democracy and human rights. This requires well thought-out, well-executed policies and programs. I'll come back to this a little later. Our effective engagement also requires highly skilled, well-trained personnel, deployed to best advantage and supported with the infrastructure, equipment and technical resources needed to function effectively. Without such personnel, policies and programs, we cannot advance our fundamental interests in an increasingly complex, turbulent and changing world.

The Department of State is essentially a salaries-and-expenses agency. We are our nation's diplomatic presence around the world. We don't have large programs which we can cut or stretch out over a long period in order to cut costs. The Department of State -- one of the oldest and the most essential departments of our government -- is also one of the smallest. Our 1989 request is for only the most vital

resources we need. Even if this request is fully appropriated -- and it must be -- the funds you provide will only minimally support the infrastructure that is vital to the conduct of this nation's foreign policy.

At the core of our diplomacy are our efforts -- both bilateral and multilateral -- to ensure the strength and unity of our alliance relations, the effective management of East-West issues, the peaceful resolution of regional conflicts and the advancement of our broader security and economic interests.

Our Foreign Policy Agenda

The Reagan Administration is committed to a busy and challenging foreign policy agenda in 1988. We know that the United States cannot afford the luxury of any letup in our leadership. The realities of our time also dictate that the United States cannot achieve our interests and objectives alone. Nor can we do so with insufficient resources. Other countries around the world cannot adequately protect their security, ensure their domestic welfare or protect their democratic institutions absent the active support of the United States. That is why President Reagan has worked so hard to ensure that our European alliance is strong and vital and why we have also strengthened our security and economic relationships in Asia and elsewhere in the world -- relationships that will be crucial to global prosperity and regional security well into the next century.

A brief review of just some of the major issues confronting our world demonstrates the critical need for an engaged, active and effective America:

East-West Relations. The importance of worldwide U.S.

engagement came through loud and clear to the President during his recent meetings with his counterparts at the NATO Summit. In Brussels, we and our NATO partners agreed that if we expect to advance our interests further with the East, we must demonstrate our resolve and be prepared to commit the necessary resources, just as we did in our pursuit of the INF Treaty. Our achievement of that Treaty offers convincing proof that success in advancing our peaceful objectives depends not only on military strength and alliance cohesion, but also on the political will to provide the means necessary to meet our objectives. The INF Treaty enhances U.S. and allied security. We therefore trust that the Senate will give its early consent to ratification of the INF Treaty, signed in December by President Reagan and General Secretary Gorbachev.

Through strength and steadfastness, the United States and our allies have set in motion a number of other efforts that, with Soviet cooperation, would bring major strides toward a safer, more secure and more humane world.

As you know, I have just returned from my second trip to Moscow thus far this year. My meetings in Moscow covered the gamut of issues that comprise our East-West agenda for the next summit and beyond. We will continue to pursue vigorously human rights issues, both as they relate to individual cases and to principles enshrined in the Helsinki Final Act and other international human rights instruments.

On regional conflicts, our policy of matching diplomatic perseverance with support for freedom fighters has increased the odds for negotiated settlements:

-- On April 14, we signed the Geneva agreement on

Afghanistan. After eight long years, the courage and determination of the Afghan freedom fighters -- and our steadfast support for their efforts -- are paying off. Under the agreement, the Soviets are committed to a front-loaded withdrawal of their forces within nine months after the agreement goes into effect on May 15, with fifty percent of them leaving within ninety days of that date. We expect them to be out by the end of 1988.

We have made it clear to the Soviets that our military assistance to the Afghan Resistance will continue, though we will show restraint in doing so in response to Soviet restraint in providing military assistance to the puppet regime in Kabul. It is our judgment that, absent the presence of Soviet forces, the Kabul government will be no match for the mujahidin.

We welcome the fact that Mr. Cordovez will work in a personal capacity to bring about a government which reflects the will of the Afghan people and to ensure a rapid, safe return of the five million Afghan refugees to their homeland. Without such a government, Afghanistan's stability cannot be assured.

-- We must continue to support those fighting for their freedom in Nicaragua, Angola and Cambodia.

Meanwhile, we are striving for additional progress in arms control:

-- . We will press ahead with the strategic arms reduction talks (START). We have made headway on important issues, but a good deal more work remains;

-- If the Soviets are prepared to match our efforts, a verifiable agreement leading to a 50 percent reduction in U.S. and Soviet strategic offensive nuclear weapons will be possible. At the same time, we will continue to preserve our right to pursue a vigorous Strategic Defense Initiative;

-- We will work to improve stability in Europe by rectifying the conventional imbalance;

-- And, we will continue efforts toward a truly verifiable global ban on chemical weapons.

On bilateral issues, the President remains committed to implementing his 1985 agreement at the Geneva Summit to exchange consulates in Kiev and New York. For the past year, we have been concentrating our efforts in Moscow on work being done at our existing chancery and on planning for our new chancery. The resource commitment required by these Moscow-projects makes it impractical to proceed at this time with our original plans for a full-fledged, classified operation in Kiev. However, a small post -- six people at most -- without classified facilities could be set up quickly in Kiev and would be a cost-effective way to open up an important area of the Soviet Union to us. During my discussions last week with Mr. Shevardnadze, he accepted in principle limiting the size of each side's consulate to the numbers we have in mind.

After my visits last week to Kiev and Tbilisi, I am more convinced than ever that we will be making a mistake if we fail to follow through with our plans to establish a consulate in Kiev. We have no task more important than to understand the changes taking place in the Soviet Union. We can no more claim that our view from Moscow accurately represents the progress of perestroika (restructuring), than a foreigner could claim to understand the mood of the American people on the basis of Washington gossip. I am mindful of the legislation relating to Kiev and we will be consulting with Congress as our plans for Kiev evolve to ensure that all U.S. interests are fully protected. I hope we will have your support.

The Middle East. We are engaged intensively in an active process to achieve a comprehensive peace in the Middle East through negotiations. This is a time for decisions. The situation on the ground does not serve anyone's interests. Rapid, positive change can occur. My discussions with the leadership in Israel, Jordan, Syria and Egypt have focussed on the need for realism and movement in the peace process.

The initiative we developed, which the parties are now considering, is ambitious and compelling. The initiative we have put forward meets everyone's fundamental concerns and provides for serious negotiations.

The key elements of our proposal are clear; face to face, bilateral negotiations based on resolutions 242 and 338; early negotiations on transitional arrangements interlocked with final status negotiations beginning on a date certain; a pre-agreed, rapid timetable; and a properly-structured international conference to launch negotiations. The conference is specifically enjoined from imposing solutions or vetoing what has been agreed bilaterally. The United States

will not permit the conference to become authoritative or plenipotentiary, or to exceed its jurisdiction as agreed by the parties directly involved.

The procedural aspects of our initiative should not obscure our objective -- a comprehensive peace.

- Israeli security can be enhanced. A new relationship of peace with its Arab neighbors can emerge. Israelis can be free from the increasing human and moral burdens of occupation -- able to devote their considerable talents and energies to building a better future.

- The Palestinian people can achieve significant control over political and economic decisions which directly affect their lives. They should participate actively in negotiations to determine their political future. In this way, the Palestinian people can achieve their legitimate rights and live lives of dignity and self-respect.

- The Arab world can turn a corner by resolving this festering conflict. The refugee problem can be solved. A stable new environment can be created in which the human and economic resources of the Middle East can flourish.

The commitment of the United States is stronger and more determined than ever. We are carrying the initiative forward into a new and more detailed, operational stage. This a moment of testing for the leaders of the Middle East. This is a time for leaders everywhere to say "yes":

- Yes, to a comprehensive peace through negotiations based on all the provisions and principles of Resolution 242.

- Yes, to security for all parties, especially Israel.

- Yes, to the legitimate rights of the Palestinians.

The Western Hemisphere. In Central America, we must continue our strong and determined efforts for democracy, development and security. The severe problems in Panama and Nicaragua should not obscure the fact that our longstanding efforts in the region have had impressive results.

Ten years ago in Central America, for example, Costa Rica was the region's only civilian-led democracy. Today, the military dictators who ruled three of the other four countries are gone. These countries -- El Salvador, Guatemala and Honduras -- are moving in Costa Rica's direction, with increasingly open societies and with civilian presidents chosen in competitive elections. We believe this trend is encouraging and it will continue despite disturbances like the one that occurred recently in Honduras.

What we face in Panama is a threat to democracy and a threat to our ability to stop the international drug traffickers. We will not shirk our responsibility to defend ourselves against these threats. We believe that General Noriega would best serve his country by complying with the instruction of President Delvalle to relinquish his post. The earlier Noriega leaves, the better Panama's interests will be served and a resolution to the political crisis achieved. We will continue to fulfill our obligations under the Canal treaties and cooperate with President Delvalle and his

government. And, we are prepared to resume our working relationships with the Panamanian Defense Forces once civilian government and constitutional democracy are re-established. Once Panamanians achieve these goals, we will work with them to help restore Panama's economic health.

In Nicaragua, for the last eight years, the Sandinistas have monopolized the government by skillfully combining brute force, cunning and a genius for propaganda. The return of Nicaraguan Resistance leaders to Managua for negotiations is a sign that we have entered a new and more political phase of the struggle there. We must ensure that the door finally opened by the strength and perseverance of the Resistance is not slammed shut. We intend to cooperate with the freedom fighters and with the four democracies in the region on how the United States can best further the prospects for both peace and freedom in Nicaragua.

In each of these cases, as elsewhere in the hemisphere, we believe that democratic leaders and groups are the key to success in combatting illegal drug dealers, communist insurgencies and other enemies of peace and freedom. We are proud to support their struggles.

Persian Gulf. In the Persian Gulf, sustained American commitments remain essential to international stability and Western economic interests. The President's decision to respond in a firm and measured way to the resumption by Iran of minelaying, causing damage to a U.S. Navy ship and injury to its crew, has served notice that Iran must pay for such reckless and provocative conduct. We do not seek a military confrontation with Iran, but we will continue to act with resolve to defend our interests.

The bipartisan support the Congress has shown for the President's decision has sent a clear message to Iran that the American people are united in support or our efforts to defend freedom of navigation in the Gulf.

During my visit to Moscow, I discussed the escalation in the Gulf War with Foreign Minister Shevardnadze, urging that the Soviet Union cooperate with efforts in the U.N. Security Council to bring the war closer to an end by imposing an arms embargo against Iran. We now continue to work intensively in the Security Council to implement Resolution 598, which demands an immediate ceasefire and withdrawal without delay. The use of chemical weapons against civilians and the continuation of the "war of the cities" between Iran and Iraq reinforces the need for accelerated efforts to bring this interminable conflict to an end.

Africa. In South Africa, our goal remains the rapid and peaceful demise of apartheid, the principal source of South-Africa's problems and of instability in the Southern African region as a whole. To that end, we are working to foster a dialogue among all elements of South Africa's population that will lead to the creation of a democratic society with equal rights for all. At a time when the repressive actions of the South African government are stifling the interplay of ideas so essential for the evolution of a free society, and isolating South Africa from the free world, we must do all we can to keep dialogue alive and new ideas coming in.

Despite the recent serious escalation of repression in South Africa, we remain firm in our belief that this can best be accomplished through a mix of diplomatic and political

pressures on the one hand and a series of positive initiatives on the other.

We face a continuing tragedy in Ethiopia. As you know, we have provided food on a humanitarian basis to all Ethiopians in distress. We are dismayed by the Ethiopian government's recent decision to expel foreign relief workers from the North and transfer their food and assets to the government-run Relief and Rehabilitation Commission. The effect of this decision has been a virtual halt of relief operations which threatens over two million people with starvation. We are working with the United Nations, our allies and the Soviet Union to seek reconsideration of Ethiopia's decision.

Asia. The strength of our security and economic relationships in Asia will be crucial to regional security and global prosperity well into the next century. Of course, the cornerstone of American policy in Asia is our relationship with Japan, our principal Asian ally and largest trading partner, and our security ties with Korea, Thailand, the Philippines and ANZUS. It is in Japan that our policy of encouraging democracy had its earliest and most spectacular success in Asia. Now, the remarkable worldwide trend toward democratic government has borne fruit in the Philippines and South Korea.

We must actively support them if these democracies are to thrive and to grow. Also, we must sustain our support for ASEAN and the Cambodian non-communist resistance in their efforts to bring about a political solution to the Cambodian conflict through a complete Vietnamese troop withdrawal from Cambodia and self-determination for the Cambodian people. As my recent conversations with Singapore's Prime Minister Lee reminded me, we are fortunate to have friends in ASEAN who share -- and who have benefitted by -- a commitment to open

markets and constitutional democracy. The visit last month of Chinese Foreign Minister Wu testifies to the continued positive development of our bilateral relationship with the Peoples' Republic. China's increasingly open economy and reliance on market approaches are ensuring its economic development and integration into the global economy.

Global Issues and Concerns. Promoting domestic prosperity is a central foreign policy objective. It used to be said that when the U.S. sneezed the rest of the world got pneumonia. - Now, it works the other way too. Our own economic fortunes have always been closely linked to conditions in the world economy. This is especially true now that economic and technological changes have turned the world trade and financial system into a single, integrated global marketplace. A healthy, growing world economy is thus more than ever vital to our own prosperity.

We have a stake in the strength not only in the economies of Europe and Japan, but increasingly in the economic health of the developing countries in Latin America, Africa, and elsewhere in Asia as well.

And, especially now, when the dangers of terrorism and the broad range of threats to many societies posed by international narcotics trafficking are becoming so stark, we must marshal the means necessary to counter these assaults on human dignity and civilized society. I have committed the Department of State -- and you have my personal commitment -- to use every opportunity and all our resources to combat these twin scourges.

Our Funding Request

As you can see, our foreign affairs agenda is a full one.

The daily effort to defend our security, to establish more stable and workable relations with our adversaries, to ensure continued economic growth and to achieve negotiated settlements in strife-ridden areas is a costly exercise. But, instability, stagnation, repression and war are even costlier, and not just in monetary terms.

Last September, when the funding prospects for 1988 appeared to be very bleak, I addressed all of the State Department employees on changes that might be required as a result of the potentially severe shortage of funding for Salaries and Expenses.
The Budget Summit, the support from you, Mr. Chairman, and the actions of your Committee and others in the Congress reduced the urgency to take immediate drastic action of a kind which could seriously threaten our foreign policy interests and institutions. But we recognize that we must not relax our efforts to streamline our internal operations.

We remain committed to:

-- Reexamining our activities to focus on those that deserve the highest priority and to eliminate or sharply reduce those that are marginal;

-- Eliminating overlap and duplication, which in turn will enable us to abolish unnecessary positions and control employment levels;

-- Improving the system under which the Department is reimbursed for services it provides to other agencies;

For foreign affairs, or Function 150 in total, we seek $18.1 billion in discretionary spending authority for FY 1989. This represents the Budget Summit agreed increase of 2 percent over the amount made available to us in the FY 1988 continuing resolution. It is 2.9 percent less than the actual amount appropriated in FY 1987, including the Central America portion of the supplemental.

In fact, keeping in mind the decline in the value of the dollar overseas, the real value of the resources we plan to commit to foreign affairs in FY 1989 is worth less than this year's amount.

For 1989, we are requesting appropriations for State Department Operations totaling $2.75 billion. This is an increase of 1.8 percent -- well within the limits of the Budget Summit agreement.

Our request covers the four categories of appropriations: the Administration of Foreign Affairs, International Organizations and Conferences, International Commissions, and Other Appropriations. Let me now review the specifics category by category.

We request $2.2 billion for the key component of our nation's diplomacy, the Administration of Foreign Affairs. These funds would cover the Department's basic diplomatic and consular functions, salaries, operating expenses, allowances, overseas building construction and maintenance, and diplomatic security.

This request represents a $43.2 million net increase over the 1988 level. Nearly all of this increase goes to compensate for inflation, for a permanent home for the Foreign Service

Institute and for replacing foreign service nationals in Eastern Europe. Our request is comprised of the following:

Salaries and Expenses -- $1.5 billion, an increase of $94 million. Of this increase

- $56 million is for net mandatory built-in changes, including anticipated price and wage increases here and abroad;

- $30 million is for the first permanent home that the Foreign Service Institute will have in its 64 year history. Mr. Chairman, this is a subject to which I have given a lot of time and thought. I attach a great deal of importance to this particular request. A permanent and up-to-date facility is vital to ensure that the people who represent the United States abroad meet the highest standards of excellence and that they are fully effective in their assigned positions. The new Institute would not only provide language, area and professional training to State Department employees, but also to personnel from some forty other agencies such as DOD, AID, and USIA;

- and $7.7 million is for improving the security in our Eastern European missions through the replacement of selected Foreign Service National staff with cleared Americans;

- Note that the Diplomatic Security program has been held at 1988 levels, requiring the absorption of inflation.

Foreign Buildings Program -- $240 million, a decrease of $73 million from the 1988 Continuing Resolution level. In addition to ongoing programs, this level of funding provides for major rehabilitation projects only at our chancery buildings in Tel Aviv and Bonn. We are not requesting funds for any new capital projects, effectively putting our security buildings program on hold. However, during FY 1989, the Department will continue work on 61 capital projects that were funded in previous years.

Foreign Service Retirement and Disability Fund -- $107.7 million, a mandatory increase of $22 million made necessary by a lower than expected rate of conversion by employees to the new Federal Employees Retirement System.

For International Organizations and Conferences, the Department requests $524.9 million to make payments of assessed contributions to international organizations of which the United States is a member; contributions for United Nations peacekeeping activities; and American participation in multilateral international conferences.

Under the heading of International Commissions, we are requesting $31.4 million to meet our treaty commitments under boundary agreements with Canada and Mexico -- and to cover our share of expenses as a member of eleven international fisheries commissions.

Finally, in the "Other Appropriations" category, we are requesting $16.8 million for Bilateral Science and Technology Agreements with Yugoslavia, the Asia Foundation, the

Soviet-East European Research Training Fund, the Fishermen's Protective Fund and Fishermen's Guaranty Fund.

Diplomatic Security and Building Programs

Turning now to the important subject of diplomatic security and our building programs: In section 163 of the Foreign Relations Authorization Act, for Fiscal Years 1988 and 1989, the Secretary of State is required to "implement a program of counterintelligence polygraph examinations for members of the Diplomatic Security Service during fiscal years 1988 and 1989." When the President signed the authorization act, he noted that with respect to this provision, he was interpreting it (and I quote) "consistent with my position concerning the discretion of agency heads to determine when polygraph examinations will be conducted in specific cases."

It is no secret to the Congress or to this Committee that I have consistently opposed the use of "lie detector" tests as a tool for screening or managing people. Nor do I believe that we can single out one class of State Department employees for special treatment just because they are called a security service. If our security objectives are to be met, then our security program and whatever use there is of lie detector tests in that program, should apply to all employees.

We are complying with the requirements of that act. Regulations have been drafted that allow me to authorize lie detector testing for any Department of State employee under three circumstances with the voluntary consent of the individual:

1. when warranted during the course of a criminal,

counterintelligence or personnel security investigation after all other reasonable investigative steps have been taken.

2. when an employee requests to take such a test for the purpose of exculpation.

3. when a State Department employee volunteers to work in an intelligence agency that requires polygraph tests, or volunteers to participate in certain special access programs -- specifically designated by me -- which involve joint programs with the intelligence community where the community requires a lie detector test.

These regulations comply with the requirements of section 163. The regulations are modeled on those in use by the Department of Defense and, as required by our authorization act, incorporate all provisions concerning scope and conduct of examinations and rights of individuals subject to such examinations.

I believe these regulations are good, because they are clear, circumspect in scope, and protect individual rights. But I am deeply concerned about the attitudes and atmosphere in this town at present regarding these so-called "lie detectors."

Take a look at the science -- or rather the lack of science -- in these tests. I don't even like to use the phrase "polygraph" because it implies precision where precision does not exist. We all know what they pretend to be -- lie detectors. But the truth is, as the Congress' own Office of Technology Assessment has pointed out, that those machines can not detect lies in a scientifically reliable manner.

Congress's Office of Technology Assessment found meaningful scientific evidence of polygraph validity only in the area of criminal investigations.

Even there results ranged from 17 to 100 percent for correct guilty detections. But consider this striking fact. In screening situations (where one in 1000 may be guilty) OTA pointed out that even if one assumed that the polygraph is 99 percent accurate, the laws of probability indicate that one guilty person would be correctly identified as deceptive but 10 persons would be incorrectly identified as deceptive (false positives). An accuracy rate of something less than 100 percent may be acceptable in attempting to forecast the weather. It should never be acceptable in matters affecting the reputations and the livelihoods of individuals.

Lie detector tests have a limited place in our security program, to a different extent in different agencies. But they must not become an excuse or a substitute for a real security program. There are both physical and psychological dimensions to such a program. That is, we must have physically secure places in which to work and everyone doing the work must be security conscious. It's like safety in the workplace. It can be done very effectively through persistent and continuous effort with everyone lending a hand.

Over the last several years, we have acted on numerous recommendations to put such a program in place. Our efforts to improve State Department security reflect both our own ideas and those of special study groups, such as the Inman panel and the Laird Commission. Congress approved a $2.5 billion program based on the Inman Panel's proposals in 1985. That same year,

we established the Diplomatic Security Service and elevated its chief to the Assistant Secretary Level.

Throughout, the State Department's security program has been at the top of my personal list of priorities.

Of course, we cannot go over everything we have done in open session, but let me cite a few examples in the areas of greatest need.

First, Espionage

o All of the FSNs in Moscow have been eliminated. After some initial problems in screening and sorting out what kind of employees we need, we have a system there that seems to be working.

o We are now going to apply those lessons to other posts in Eastern Europe. In the near future, we expect to replace other FSNs in Eastern Bloc countries.

o In Eastern Europe, we are establishing CORE areas of the embassies where no one but cleared Americans will be allowed. Our aim is ensure that classified is processed in areas free from all foreign nationals or other uncleared personnel.

o The typewriter bugging in Moscow led us to increased rigor in protecting our office equipment. The new PTPE facility -- which we have set up jointly with the CIA -- allows us tight control over the office equipment that may be subject to tampering. Purchase, shipping and maintenance are all handled by trained American personnel.

o Embassy construction is now done by cleared American firms. Construction sites are guarded by cleared Americans. Construction security programs are in place at fourteen new office buildings and will be part of all future NOB projects. Materials are screened and protected from the time of purchase until final disposal.

Second, Counterintelligence

o We have gotten help from the FBI with our Counter-intelligence Program. The new chief of our CI shop is on loan from the FBI. We also have a professional trainer from the Bureau to help us build up our own talent in this area.

o Our CI program is oriented towards the protection of classified information. Consequently, the program emphasis is on training, security awareness, employee screening (over 700 applicants were denied security clearances last year) and selection.

o We pursue an active program to insure that our employees comply with the applicable regulations regarding their conduct. If they do not, we take the appropriate steps. Last year, forty employees had their clearances suspended, downgraded, or revoked because of personal security issues. We conducted over 1,200 update investigations on our current employees.

o We have worked to raise the level of awareness in the Foreign Service to espionage. Each Ambassador has been told to establish a CI counterintelligence Working Group (CIWG) to focus attention on CI matters at a high level at each post. And each Ambassador has been made personally accountable for

security at his misson. All personnel being assigned during the summer cycle to the Bloc countries are required to attend a one week counterintelligence training program jointly sponsored by State and the CIA.

o We have instituted a more intensive use of counterintelligence debriefing and are developing a new program of screening to use before selecting individuals for such assignment.

Third, Security Standards

o Last fall we put out strict new physical and procedural security standards for any embassy that is to handle classified information. Posts are being brought into compliance. We have reduced the level of classified material authorized at several posts and have decertified dozens of facilities from the storage of any classified material until the new standards are met. This is a painful process for many posts in the short run. But in the long run it will improve their ability to do their work.

o I have talked to Bill Webster about how the Intelligence Community can help us to make sure our standards are what they should be -- especially in areas like technical security where there are very few qualified experts. We will be establishing an organization which can give me an independent look at our technical security standards without building up a big new bureaucracy and without tangling the lines of responsibility.

Our job will never be finished. There is more to be done and we are trying to do it. But what we are doing is the best

way to achieve our objectives. To divert our resources and attention from these constructive activities to the destructive alternative of lie detector tests would be a serious blow, not just to morale but to security itself.

In August 1986, Congress passed and the President signed the Omnibus Diplomatic Security and Anti-Terrorism Act. This landmark legislation, carefully crafted by Congress, gave us the authority, and a major start on the resources we needed, to implement the recommendations of the Advisory Panel on Overseas Security chaired by Admiral Bobby Inman.

This legislation authorized a worldwide diplomatic security effort. Subsequently, we began a multi-year program to replace and upgrade facilities at our most vulnerable posts overseas. The Inman Panel found that buildings at 134 of our 263 posts were substantially below minimum security standards. We began the most extensive construction program in the Department's history. We also started making improvements in security operations and organizations.

Unfortunately, today's budget realities are forcing us to slow the program down. In both FY 1988 and FY 1989, there will be no newly authorized starts in the security building program. In addition, we propose to hold the Diplomatic Security salaries and expenses to the 1988 level. Because this does not compensate for inflation, this means a real decrease in operations.

I accept the need to hold down expenditures in the interest of the nation's economic and financial health. The State Department is doing its part in that effort. But I also fear that if we continue to constrain diplomatic security

expenditures in future years, the momentum toward improving the security of our operations will be lost. In short, it is critical that the levels requested for security be viewed as part of the Department's response to the budget process -- not as a reduced commitment to security by the Administration or Congress.

With specific respect to the Moscow Chancery, a subject in which this Committee has expressed a particular interest, we continue to make good progress on rehabilitating the existing chancery. At the same time, we are moving ahead with planning on how to achieve a new secure chancery facility in Moscow.

The Department has worked closely with other agencies represented in Moscow to reach a consensus on the most feasible long-term solution to our needs in Moscow. Before expending significant additional funds to a specific approach, we want to be certain that the design and logistics of fully securing a building are feasible in the harsh security environment of the USSR. To get those answers, we have awarded a contract for an engineering and security survey of the new building to determine options for the present structure and development of a fully secure building.

Concurrently, the survey will also look at the feasibility of restructuring the present chancery into a totally secure facility; a much less desirable option, in my view.

We will have the results of the survey in hand by late summer and will then prepare a proposed course of acton for the consideration of the Congress. We expect to be able to present a package complete with funding requirements before the end of the fiscal year. In this regard, I should note that we believe

no new funding for reconstruction of a new office building will be required prior to fiscal year 1990.

Let me now try to drive home some funding realities which demand attention. We fully understand the dilemma everyone faces under current budget limitations. And, we fully intend to operate within the level agreed upon at the Budget Summit, as our austere budget request indicates.

Contributions To International Organizations

Following on the $480 million appropriated for FY 1988, and in line with the Budget Summit compromise of late last year, the President's FY 1989 budget requests only $489.9 million for the CIO account. This is $166 million less than estimated 1989 net requirements (a shortfall of over 25 percent) for which we normally would seek U.S. funding. This will bring our cumulative shortfall to over $500 million by the end of 1989 -- a record high.

This significant shortfall for FY 1989 forces us once again to confront an extremely difficult decision about the allocation of very limited funds. No one receiving less than 100 percent funding will be fully satisfied. But the facts dictate that many organizations will have to receive less than 100 percent funding because the Administration must seek less than 75 percent of full requirements for this account.

I recognize our budget problems and the need to live within the Budget Summit, yet I must point out my concern over the growing shortfalls in our payments. Looking ahead to 1990 in this account, if we continue virtually to straight-line our appropriations, we will be falling even further behind.

If we do not reverse this trend toward further shortfalls in our assessed contributions to international organizations, the United States could lose its right to vote in some organizations. More immediately, continued shortfalls in our contributions undermine our efforts to achieve implementation of the important budgetary reforms which have been approved in the United Nations and key affiliated agencies at our initiation.

There are some who view the solution to this problem as negotiating a reduction in our assessments. Others argue just as forcefully that for the U.S. to seek an assessment reduction would be tantamount to accepting a diminished American role in world affairs -- a diminished ability for America to pursue our most fundamental security, humanitarian and economic interests around the world. They further argue that such negotiations would most probably be contentious and provide our adversaries with another opportunity to attack the U.S.

There is no easy solution to this dilemma. The Department is studying the problem and is taking a hard look at all of the alternatives. This process will require extensive consultation with Congress over the next year. I ask for your support in this difficult reassessment.

State Department Improvements

In difficult times such as these, there is a temptation to put off badly needed programs and projects. Inevitably, several years later, it will be painfully evident that such a response to budget constraints was extremely shortsighted.

The construction of an up-to-date Foreign Affairs Training

Center is a high priority for me. I urge the Committee to approve this project. The issue is simple: ensuring the professional excellence and effectiveness of the men and women who represent our country abroad.

I am convinced that the ability of the United States to effectively carry out its diplomatic functions is directly related to the skills of our professional staff. At a time of declining numbers in our work force, it is particularly important that the quality of our personnel be the highest that is possible. The new Foreign Affairs Training Center will provide an adequate facility to address this need.

We must press ahead with skill development through training and the use of current technology. We must take action now to ensure the future.

In closing, let me say again that if we fail to provide the resources that give substance to our words, lend credibility to our commitments and permit the effective execution of our plans, we will be shortchanging our most fundamental national goals and interests. My colleagues and I recognize that we must have the cooperation of Congress to achieve all our foreign policy objectives. We are committed to working with you and we welcome your close scrutiny of our budget proposals.

UNITED NATIONS ISSUES

Senator HOLLINGS. Good. Senator Kasten?

Senator KASTEN. Mr. Chairman, thank you. First of all, Mr. Secretary, you talked about the reference to international organizations.

Let me speak for just a moment, if I may, on behalf of Senator Inouye and myself. Alan Woods is down the hall in S-128 before the Foreign Operations Subcommittee. I have been shuffling back and forth. Senator Inouye is conducting that hearing.

I just want to make a comment, I guess, on what took place when we had in the Foreign Operations Subcommittee the issue of contributions to international organizations and particularly the United Nations.

As you know, Assistant Secretary Williamson was called to join you in Geneva. Our understanding is that also, at the same time, Ambassador Walters was traveling in South America. Our understanding is that requests were made to the U.S./U.N. group in New York to have someone come down and testify.

It turned out that no one came down to testify. No one came down to address important questions that Senator Inouye and I had, and, in effect Mr. Goodwin was left trying to kind of fend off questions when he was not the appropriate person to address those questions.

Now, this subcommittee and our subcommittee are, I think, going to have a very difficult time trying to deal particularly with the United Nations if Ambassador Okun or others decline to appear before us.

The suggestion was made by some that the fact that he was declining to appear was because he knows it is difficult or impossible to make a determination under existing law which would allow further contributions to the United Nations.

U.N. BUDGET REFORM

There are a couple of issues that this subcommittee and our committee are concerned about. One is the progress or lack of progress on budget reform, and, in the view of many of us, the expansion of that Budget Committee to include more members was a step backwards rather than a step forward. And the Budget Committee still hasn't put out a budget, anyway.

LIBRARY POST AND SECONDMENT

The other question that we had is on the issue of secondment. Senator Heinz, Senator Inouye, Senator Hollings, Senator Rudman, and I and a number of others are concerned about this secondment issue, and there is no progress on that.

The particularly difficult thing that we just found out was that, after we went through this hearing two weeks ago, one of the things that General Walters conveyed to some of us privately was his determination that the Soviets would not be allowed to name a replacement for the job of Director of the Dag Hammerschold Library.

Unfortunately, in the last 2 weeks or 10 days, the Secretary General has gone along with the Soviets' insistence, and one of the Soviet citizens will be placed in that top job. And I think that it was common

knowledge that the previous occupant of that position was a Soviet and also a KGB agent.

So, we are not making progress, it seems to me, but, in particular, it is awfully hard for the Congress to try to work with the United Nations if they appear to be, first of all, unwilling to work with us, and second, not even willing to come to a committee hearing in which the subject is funding for the United Nations.

UNITED NATIONS ISSUES

Secretary SHULTZ. First, Senator, I apologize for the fact that no one came. There was a foul-up of some kind, and there is no excuse for it, and, however difficult the issues may be, we need to come and testify and answer questions.

We have a tough budget situation, and our effort here is to handle the restriction on resources in the most effective way we can; and we have to come and tell you what we have in mind and hear your comments, and we should have done that.

There must have been some foul-up in communications. I think we discussed this, and it was not intentional; and we will do everything we can to see that you have proper testimony and a question and answer capability put in front of you.

LIBRARY POST AND SECONDMENT

As to the library post and the secondment issue generally, I don't have on the top of my head that library issue. The secondment problem, we do regard as a serious one, not that secondment isn't something that isn't a useful thing in international organizations, particularly for less developed countries that can't really spare people over long periods of time; but with respect to the Soviet Union, it has been overdone.

And we are trying to deal with it by cutting down the amount of it, by making tours longer, by having people not live in Soviet compounds and act more like international civil servants, if that is what their role is to be; and so on. But the situation isn't satisfactory. We keep pushing at it.

U.N. BUDGET REFORM

You didn't ask about the U.N. budgeting process where we managed to bring about a considerable reform. I think our inability to come up with the funds that we are obligated to pay hurts us in our efforts to push that reform. That doesn't mean we can't push it and aren't pushing it, but it makes it somewhat more difficult.

Let me ask Mr. Williamson if he wants to make any comments about this.

LIBRARY POST AND SECONDMENT

Mr. WILLIAMSON. Thank you. Senator, I just would like to correct one impression regarding the library. It is true that that post will soon be open. And we had heard before, notwithstanding general discussion, that the Secretary General would be going ahead with an appointment.

Yesterday, Under Secretary Ahtisaari was in Washington to talk with Assistant Secretary Crocker and me on the developing situation, after

which I met with him on this specific issue. He assured me, notwithstanding those rumors, that the Secretary General had made no final decision, and I took the opportunity to express and reiterate what General Walters had made clear to the Secretary General.

So, on that point I am not saying it is all resolved, but I was assured yesterday in the late afternoon that the issue is still open.

Senator KASTEN. In the process of bringing it up here, maybe they could be made aware of the fact that the Congress is interested in this issue as well.

Secretary SHULTZ. We are glad to have you make the comment because it helps us.

U.S. PAYMENTS AND REQUIREMENTS FOR THEIR DETERMINATION

Senator KASTEN. Let me make one other comment. I don't want to get into a debate, but last year the Congress, with significant reluctance, came forward with $90 million of the $144 million that was supposedly in arrears. We sent that money, and it was received—if I remember correctly—in the first week of December.

The third week of December was when the vote occurred which expanded the Budget Committee, and that is called the Committee for Program and Coordination, CPC.

So, we have always argued that the way we can increase our influence is by paying up, and then they are going to be working with us. We paid up and the first vote, if you will, was to do the opposite of what we wanted. And incidentally, there was only one vote opposed to that expansion—the United States—however many other people there were there that day—maybe 143, if I remember correctly. So, the vote was 143 to 1 occurring 2 weeks after we had sent our $100 million. It actually turned out to be $90 million.

So, the response was precisely the opposite of the response that those who argue if we participate we are going to achieve our goal use. We participated, and in fact, they voted 143 to 1 in opposition to our interests.

Now, if that is the kind of response we get, it is going to be tough to get the $44 million out of this Congress, right this moment. And I think it is going to be particularly tough for you and the President to make a determination that progress is occurring on budget secondment, administration, etcetera.

Mr. WILLIAMSON. Senator, we take very seriously the requirements for the determination that were put in the appropriations bill last year.

With respect to the personnel issue, we feel there has been progress, not as much or as fast we would like, but we feel comfortable that there has been progress.

U.N. BUDGET REFORM

The Secretary noted that we were very pleased when the group of 18 reforms that are to be implemented through the Committee for Program and Coordination adopted in 1986. But 1987 was not a good year for our efforts to bring about reform. As you correctly noted, the CPC was expanded. Our efforts to get a contingency fund were thwarted; General Walters has worked very hard on this as well.

We have made it perfectly clear to the Secretariat that unless the CPC functions properly—and it has its first meeting in May—we would have a very difficult time coming before you and your colleagues to say that progress on reform has been made. We are focusing on that.

SECONDMENT ISSUE

With respect to secondment, the difficulty is substantial because the charter is not clear on it. We are working hard to get some real progress.

We understand your concern and that of others, that it has to be more than just rhetoric. We have to be able to point to specific progress.

As you know, some three weeks ago we submitted a report to Congress, as required, on the secondment question with the Eastern Bloc. It is a dismal picture, but we are working on it.

I can assure you that if any determination is made, it will be because we feel comfortable real progress has been made and that we can make such a representation to you.

U.N. BUDGET REFORM

Senator KASTEN. And you will not make such a determination until you are convinced that real progress is, in fact, being made?

Mr. WILLIAMSON. Yes, sir.

Senator KASTEN. How can you explain that? I don't want to get into a lengthy discussion on this, but it is just incredible to me that they get the money and two weeks later the vote is 152 to 1. I mean, aren't they listening to what the Secretary and Mr. Whitehead and Senator Inouye and Senator Kasten and Senator Hollings are saying?

It just doesn't make sense to me that they would take the money and literally, two weeks later, have a vote of 143 to 1 directly opposite to the whole key issue of making the budget work.

Mr. WILLIAMSON. I think, Senator, all I can say is that I was not in my current post at that time; but I can assure you I have reiterated many, many times that any effort to get the $44 million was counteracted substantially by the actions taken in late December of last year.

Secretary SHULTZ. I might note that we have had able leadership before. But I am very pleased that Rich Williamson has been able to undertake this post. He has already handled a number of rather delicate things extremely well. He has taken hold of the Afghan refugee problem and will be our leader on that; and he has been working effectively on U.N. matters. So, he is a welcome addition to our team.

Senator KASTEN. Mr. Chairman, I have a couple of other questions, but I would yield at this point.

My colleague from Tennessee is here, and I know you have some questions also.

FRIENDS COMMITTEE ON NATIONAL LEGISLATION

Senator HOLLINGS. Before we move to Senator Sasser's questions, I will make part of our record a letter with regard to the UN reforms from the Friends Committee on National Legislation.

[The statement follows:]

FRIENDS COMMITTEE ON NATIONAL LEGISLATION 245 Second St. NE, Washington, DC 20002

April 27, 1988

Senator Ernest Hollings
U.S. Senate
Washington, DC 20510

Dear Senator Hollings:

It is our understanding that the Appropriations Subcommittee on Commerce, Justice, State and Judiciary will have the opportunity to discuss the status of the UN reform process with Secretary of State Shultz tomorrow.

We are alarmed that Congressional questions about the UN reform process are holding up both the second and third installments in U.S. payments to the UN. The first installment of $100 million was released in the fall. It is our understanding that the revised Kassebaum amendment envisaged the issuance of a Presidential certification and release of the second installment by approximately January 30. The final installment was to be released 30 days later -- unless the Congress blocked the release by passage of a resolution of disapproval. The second and third installments would total approximately $44 million. ***We urge you, on the one hand, to encourage the Administration to release the certification and, on the other, to help insure that the Senate does not block release of the final installment.***

Understandably, the Administration has consulted with Congress extensively before issuing its certification, but the process is approximately three months behind schedule. The UN requires additional funding. It should be kept in mind that the $44 million currently being withheld is only a fraction of the balance ($106 million) due on our assessment of $206 million.

The funds are not only legally obligated, they are also deserved. Progress on the UN reforms adopted in December, 1986 has been steady and substantial in all three significant areas of the reform process: budget making procedures, staff reductions, and administrative reform. The 1988-89 budget represents real, negative growth over the previous budget, and although the consensus-based budget procedure is not due to go into effect until the formulation of the 1990-1991 budget, there has already been a dramatic broadening of consensus on the 1988-89 budget as compared to previous years. Staff reduction goals are well on their way to being met, and adminstrative restructuring is underway. The implementation of UN reforms begun in 1987, however, is a *process* that will take several years to complete. The U.S. must be careful to encourage, rather than damage, this reform effort if it is to bear full fruit, and if the U.S. hopes to encourage other reform programs in the future.

The U.S. played a major role in creating the impetus for the reform effort, and U.S. support for the UN was portrayed as contingent on the adoption of reforms. Now that an important reform effort is underway, the U.S. must demonstrate support for these efforts. It is time for constructive cooperation.

An issue that is sure to arise in the hearings is that of secondment. Secondment is an issue that was not adopted as part of the UN reform effort, but which in the U.S. has been singled out by some as a salient area in need of reform. Secondment is a longstanding practice which has been in use since the beginning of the United Nations (in fact, since the League of Nations).

The practice serves a number of purposes, and it has been woven into the fabric of operations within the UN. Therefore, changing the use of secondment will require a major effort involving the Secretariat and member states and a directed plan of action.

Through conversations with member states, progress has been made in raising secondment as an area of concern. If the U.S. decides that this personnel practice is a priority issue in the UN, an appropriate course of action would be to continue these conversations and work toward further, directed action. However, as with the reform process, *cooperation* in this area is essential for progress to take place. To make secondment a sticking point of U.S.-UN relations would be counter-productive in our view.

The U.S. needs and uses the UN in a myriad of areas. The current negotiations on Soviet withdrawal in Afghanistan and the potential role of the UN in a Middle East peace process represent just two vital areas where the U.S. is pursuing political goals which require the full cooperation of the UN. The U.S. must demonstrate support for the work of the UN in concrete ways if the U.S. is to continue to call on the UN in its diplomatic efforts.

We hope you and other Subcommittee members will bear these points in mind as you consider testimony regarding the U.S. relationship to the UN.

Sincerely,

Nancy Alexander

Nancy Alexander

EXTENSION OF PROTECTION IN THE PERSIAN GULF

Senator HOLLINGS. Good. Senator Sasser?

Senator SASSER. Thank you, Mr. Chairman. Good morning, Mr. Secretary. I have just a couple of brief questions.

I have been reading in the newspapers, Mr. Secretary, and have seen spokesmen for the administration on television indicating that there is consideration being given to extending the protection of the U.S. Navy to vessels in the Persian Gulf other than those flying the American flag.

I was wondering Mr. Secretary, what your views are on that policy if that is the policy of our Government at this time. Would you support that initiative?

Secretary SHULTZ. The question at issue is: If a U.S. naval ship is in the presence of a neutral ship that is being attacked and the captain of that ship asks for assistance, should we provide it? That is the basic question.

And that question is being examined in the administration. No decision has been made about it. In the process of examining it, we have been consulting with members of the Congress about it in both Houses of Congress and asking for their views.

I think probably the President will come to a decision about it fairly soon. Secretary Carlucci is in Brussels today. We expect him back tonight. We don't want to get at that issue until he is here, and I would prefer not to express a personal opinion. It is a matter under consideration. I will give my views to the President, and he will decide; and I will support those views.

Senator SASSER. That is all I have, Mr. Chairman.

SUPPORT FOR RESISTANCE IN NICARAGUA

Senator HOLLINGS. Thank you. There are two things, Mr. Secretary. One is more of an observation, rather than a question because, in your testimony about the Contras, and supporting the resistance in Nicaragua, the fact is that this Congress and previous congresses, now 7 years running, have provided support.

It has been sort of off-again, on-again, but each year support has been provided with a caveat, some just humanitarian or whatever.

And the categorical term, since military was voted off, that was only by some eight votes on the House side and approved on the Senate side. That is hardly a policy of nonsupport—hardly a policy.

Secretary SHULTZ. The money stopped.

Senator HOLLINGS. Yes, the money stopped. I am anxious, on the one hand, to get the humanitarian aid, and it is not getting through; and on the other hand, the policy because we see—I formerly left this policy to my distinguished colleague from Tennessee and Senator Dodd from Connecticut.

I had never been down there, but I have now. While you don't learn it all in one trip, I did learn enough, and I believe in those who do peace rather than seek peace. While Arias seeks peace, he doesn't do peace.

He tries to equate himself with Switzerland and Sweden. They have an Army in Sweden and they have a draft in Switzerland, but it is against the law to put on a uniform down in Costa Rica.

Now, we have given a billion dollars there. We don't give anything much to the Contras. We have given $1 billion to Costa Rica alone in those last 7 years, In fact, we have given $5 billion to Costa Rica, El Salvador, Honduras and Guatemala.

Some are talking about a Marshall Plan. You and I already have a Marshall Plan and it is working.

But in contrast to the $5 billion we have given there, the Soviets put $5 billion right in Managua to spread out into El Salvador/Honduras, and up into Guatemala.

Talking to Escona, he said he would come up and testify for military aid. I always heard my colleagues tell me the five Latin American presidents, or whatever, are like Carter's Little Liver Pills. So, I went down to see the pills, and Escona himself said he would come up and testify to us.

He wants it. He only says humanitarian now because he was embarrassed to only get $7 million when the others were getting way more. We have a real problem that just won't finesse over the summertime, and I hope you would look seriously with respect to another request so that Congress won't let that real downfall occur on your watch.

I think it is absolutely, what we see happening in Honduras. I saw already, long before it happened last month, because they had moved up into street crime and everything else, the Sandinistas on the move there to put on those demonstrations.

FUNDING FOR REFUGEES

Escona say that he is going to need $250 million for refugees in Honduras. He has got 200,000 up there now. He will need $250 million for refugees. We are not saving money if we do away with the resistance.

And a similar amount is going to be needed down in Costa Rica. So, we are not solving the problem. Congress thinks it is sharp and is solving the problem. The truth of the matter is that the Soviets are not going to invest that $5 billion and want peace. They want to continue moving the way they have been.

And Ortega has told us that categorically; I don't see why we don't believe at least that statement.

So, I hope you would entertain some thought of an additional request because it is not going to last over the summer. It is going to come down before that election in November; it is bound to. And I hope it comes down on the side of freedom where we can take that group that has been effective and were winning in January and February until we cut it off, to try to continue to win. If they don't win Nicaragua, at least they are winning democracy for Honduras, Costa Rica, El Salvador, and Guatemala.

So, you ought to look at that very seriously.

The question with respect to the budget has to do with the fact that we got together with the Deputy Secretary——

Secretary SHULTZ. Could I just say, Mr. Chairman, that I share the general point of view you have expressed. I think the vote in the House last February was a tragedy for us. We have to do the best we can with the situation.

We are getting that aid distributed. The Nicaraguan Communists are trying to get control of the money, and we can't permit that to take place. So, we will work at it.

We will try to see what requests properly can be made, but I think we see a lot of positive things in Central America.

And we seemed to be on the verge of even more positive things until the rug was pulled out from under us by that House vote.

Senator HOLLINGS. And I think the House members are beginning to realize it. I think that that change of the currency caused even the Sandinista unions to go on strike. While I was down there, they killed two of the labor leaders, the Sandinista labor leaders. They have total control downtown. It is the sort of country you need, you know, a middle class for an election. The middle class is either in Honduras, Costa Rica, or up in Miami. You know, 500,000 have left. And there is nothing left there but the poor peasants and the controls, and Cardinal Obando and Violletta Chamorro. That is about all.

It is a desperate situation, and I hate to see it because I see it extending. I mean, Escona is very, very capable; and he was telling how the move was coming up into Honduras. And then, that demonstration and burning of our embassy. I wasn't a bit surprised. They can pull one of those next week, this afternoon—any time they want to.

Now, you see that Duarte is in trouble because we want peace. We are going to give peace a chance. The reality is different.

BUDGETARY SITUATION

In any event, we had an $84 million shortfall, and Secretary Whitehead and the committee got together; and we were going to eliminate overlapping and duplicative activities and what have you. And now, you say you have the same level in 1989 that you had in 1988, but to maintain it we find you have $102 million shortfall.

I should observe that Gramm-Rudman-Hollings never said cut anything. It said pay for it; and if you couldn't pay, you had to cut back. Now, I suggested and testified for a value added tax made the motion in the Budget Committee but couldn't get any support.

So, I understand there are not going to be any taxes under the summit agreement; but that is not to be blamed in this particular instance when we say we are keeping the same level, and we were trying to comply with that 1988 level by cutting back with the $84 million shortfall. Secretary Whitehead and myself were working together, then the budget summit gave some relief, but now we have $102 million as we sit here.

I mean, that is something that you ought not to be bothered with, but we will have to work with Under Secretary Spiers and others on this. That is really where you are.

Secretary SHULTZ. That is correct, Mr. Chairman. Of course, what happens as time goes on is that, even though inflation is moderate, it still is at a rate higher than the rate at which the total numbers have increased; and we have various obligations on retirement plans and one thing and another that we have to fulfill.

So, we find ourselves in a very tough budgetary situation; and the result of that is that all of these things that we have been working on very hard, we must continue to push at. That involves such things as closing consulates or posts; it involves real hard work on this idea I referred to earlier of learning how to operate very small posts—one person or two people—to operate them in a manner where we don't have the needs for guarding and we don't have the needs for expensive facilities, and do the secure communications by going elsewhere.

We have all sorts of things like that that allow us to operate on a streamlined basis. And those are things that we are working on and trying to close that shortfall.

COMMITTEE ALLOCATIONS AND THE SUMMIT AGREEMENT

Senator HOLLINGS. You should know that the subcommittee is friendly to you and admiring of you, and that should be understood. We are not being hostile when we cut. We get a 302(b) allocation. I am looking at it and struggling in the committee. We have had three meetings.

And when they give the allocation for this particular subcommittee, they say we are going to do more—a billion more—and yet we don't have the money. It is not allocated to us to do it.

We are going to do more in drug enforcement, and we have got that as a cut in our allocation at the moment. We are going to do more on immigration as we have a transfer from 1986 over to the 1987 funds. We have got to make up that $68 million to keep up with the new immigration law.

I have got all these troubles, and I am not trying to burden you with them; but I am trying to give you a better feel that the committee admires what you are doing. It is the game that we have been playing.

The summit agreement says that you have to hold at a certain level, and then the President comes around and says: But I want more in space, and I want more in prisons, and I want more in drugs, and I want more in AIDS, and I want more in housing. So, politically, the Congress then comes and says, oh, no, we are not going to be outdone by the President this election year.

So, we are going to play his game and give at least as much as he asked for. But then, they don't want to go back to how he gets it. He eliminates AmTrak and the Economic Development Administration and UDAG, and you can go right on down the list. We won't go on with the eliminations.

So, it is like tying two cats by the tail and throwing them over the clothesline; and we have been up there clawing each other for three afternoons, and we haven't gotten anywhere. [Laughter.]

I just want you to understand that that is something to think of when you fly back to Moscow. [Laughter.]

It is a lot more peaceful over there. Senator Kasten?

MIDDLE EAST PEACE INITIATIVE

Senator KASTEN. Mr. Chairman, I have one further question that I would like ask and then I will submit some questions for the record. Mr. Secretary, I want to ask a specific question about the Middle East peace initiative.

You have explained to all of us, and I think I understand the U.S. position of opposing a so-called authoritative international conference. But how many other countries, of the countries that might be involved in such a conference, have agreed essentially to that U.S. position that the conference exist but that it not be authoritative?

And what is the Soviet view on such a conference and the authoritative—or the degree to which it would be authoritative. And the reason I am asking this question is to see whether you achieved any breakthroughs on this issue in your discussion with Soviet officials last week in Moscow.

Secretary SHULTZ. I didn't achieve any breakthrough, although we had a lengthy discussion. In addition to myself, Assistant Secretary Murphy and Dennis Ross from the NSC staff were there. And they had lengthy discussions with their counterparts. No doubt the level of understanding was improved. And that is the sort of thing that may in the end lead to something.

But as of now, I can't say that we made any real headway. For example, their conception of an international conference is different from our conception. But, still, it is not impossible that that might happen.

As far as we are concerned, as you said, we think that the role of an international conference should be to basically be the sponsor of the direct face-to-face negotiations that, in our view, are the only way you are really going to get anywhere. And the conference should be able to receive reports from the parties as to the status of negotiations.

No doubt, down the road, if negotiations were to succeed, questions would arise about international guarantees. Questions would also arise about refugees. These are subjects that international groups can deal with best, as distinct from direct negotiations, or regional economic development problems, and things of that kind.

But the basic issues, political issues, need to be dealt with directly by the parties, in our view. I believe that Egypt shares that view. I think, under the right circumstances, such a conference would be agreeable to Jordan; but I don't want to speak for them. They haven't said that in so many words; but if the flow were right, probably that would work out.

President Assad of Syria has a complete disagreement with our concept. He said: Why do I want to go to an international conference if it isn't empowered? And I said, well, suppose it was empowered to tell you to change your borders in a way that you don't like? And he said, oh, well, I wouldn't accept that.

I said that that is what an authoritative conference is supposed to do. That is why I think it is a bad idea, and it won't work.

The Soviets, of course, want to have an authoritative conference; and just how that would play is a question mark. The Israelis are divided on the subject. Prime Minister Shamir has made it evident, and puts this as a centerpiece in his opposition to elements of our plan.

On the other hand, Foreign Minister Peres and Defense Minister Rabin seem to be willing to, in effect, go through this process of a non-authoritative international conference that maybe will get us to the kind of direct negotiations that we seek.

So, that is sort of where it all stands.

Senator KASTEN. Thank you, Mr. Chairman.

Senator HOLLINGS. Thank you, Senator. Senator Bumpers?

BUDGETARY SITUATION

Senator BUMPERS. Mr. Secretary, I was going to ask you a question that Senator Hollings has already asked you about. Apparently, you are already operating under a shortfall of over $100 million. Is that correct?

Secretary SHULTZ. That is right. We are seeing that resources don't fill the needs that we have. So, we are looking hard at cost savings of one kind or another. We have had this program under way for over a year, and we are identifying things to be done; but we have a very tight budget situation.

Senator BUMPERS. Mr. Secretary, let me just ask you three or four general questions unrelated to the budget.

KUWAITI COOPERATION

Number one, I see different figures that the Kuwati reflagging operation has cost us $150 million so far. Has Kuwait reimbursed us anything for this operation?

Secretary SHULTZ. They have provided fuel, I believe. I am not the best person to answer this question.

Senator BUMPERS. I understand. This is probably not a proper question for you, but I thought you might have some information.

Secretary SHULTZ. They have cooperated in a great variety of ways. On the other hand, reimbursement for the cost of operating our ships in some sort of accounting sense, I don't think, would be appropriate; and we haven't asked for that.

Senator BUMPERS. Do you favor a U.N. determination as to who started the Iran-Iraq war?

Secretary SHULTZ. We favor Resolution 598. That resolution calls for a cease fire, movement to recognized international borders, and a body that would investigate that issue.

Senator BUMPERS. If I recall, at one point Iran offered to allow a U.N. commission to make a determination. At that time, I think we and Iraq both objected to that. Is that not correct?

Secretary SHULTZ. Their idea is that there should be a commission to make that determination before anything else happens. And then, if the commission rules in their favor, they would be happy; it if doesn't, they would declare it a biased commission. At least, that is the way I view what they are doing.

We think that the right way to go is Resolution 598. It was voted on unanimously by all members of the Security Council. Iraq has accepted it unambiguously. It calls for a set of things to happen simultaneously; and that is what we think should happen.

Senator BUMPERS. Does that cease fire also carry both parties staying in their present positions?

Secretary SHULTZ. It foresees that parties would move to recognized international borders. Actually, that matter is simplified somewhat by the fact that recently Iraq took back the al-Faw Peninsula which was, in many respects, the most strategic piece of ground that Iran had taken from Iraq.

INTERIM RESTRAINTS

Senator BUMPERS. I have two other questions, Mr. Secretary. One deals with the so-called interim restraints while we are negotiating a START Treaty. I don't know where we are on it. I have no idea. I don't have any intelligence.

I am sure you know roughly what the sticking points are. I have seen press reports that there are five or six things that simply have been too knotty to get resolved in the foreseeable future.

One of my concerns is now and has always been that interim restraints similar to the SALT 2 Treaty, in numbers—the total numbers and the sublimits—similar to what Les Aspin apparently got put on in the House yesterday, be kept in place while we are negotiating START.

And I think the lack of interim restraints really takes away from the INF Treaty. What is your feeling about the interim restraints? The intelligence I have seen indicates that the Soviets actively are dismantling many of their missiles as they deploy new ones, to stay within the SALT 2 sublimits.

The Senate passed legislation last year that didn't precisely define the SALT 2 limits with the interim restraint, but simply said we will take this submarine out and then we monkeyed around with the funding so that we would come close to the SALT 2 restraints without ever calling it that.

And there is obviously going to be a battle shaping up now, possibly between the administration and the Congress—I hope not—on this issue.

Secretary SHULTZ. We are negotiating for a strategic arms treaty. We are not negotiating for interim restraints; and we think that we should spend our efforts on trying to get the 50-percent reduction in its various ways; and that is the right way to go.

If we break off and start negotiating an interim restraint regime, that in itself is complex and will be a major diversion of effort. When the President issued his decision about SALT 2, as you recall—and I don't have it in my mind to quote it—he set forth standards for U.S. behavior, which basically said we would not deploy more ballistic warheads than the Soviet Union did; and he expressed a set of restraints.

And this is fundamentally a statement of what we will do. And we will watch what they do. I suppose you could say it is a kind of call for a set of unilateral actions that amount to a certain degree of interim restraint. And we think that is a good place to put it.

SENATE LANGUAGE

Senator BUMPERS. Language that we have consistently adopted in the Senate is not unilateral. It always left the President considerable latitude in a number of ways.

We wouldn't be bound by interim restraints, for example, like the SALT 2 Treaty, unless our intelligence community told us they were doing likewise.

Secretary SHULTZ. Yes. That is in the President's statement in connection with his SALT 2 declaration. That is basically the way he put it. I don't have that here to read to you.

PRESIDENT'S STATEMENT ON SALT 2 DECLARATION

Senator BUMPERS. Are you talking about the 1981 or 1982——

Secretary SHULTZ. I am talking about the statement the President made. I forget the exact date of it; but it was about 2½ years ago, as I recall. It was at the time at which it was clear that we exceeded by one, I guess, the number of launchers permitted in SALT 2. I am just searching back in my memory. I haven't prepared myself for this question.

Senator BUMPERS. It was November of 1986, I think, when he made that statement. Of course, I have to take exception to that because most of our increases really have been by equipping B–52's with the cruise missile, and that is where we have really gone over the limit. I don't think that gives us much really; I don't think that kind of exceeding of the limits, if you were putting a Trident submarine to sea with Trident 2 missiles on it, would make a lot more sense to me than it would putting cruise missiles on a B-52 and going over the limits—with the most antiquated weapon we have.

UNIT OF ACCOUNT IN SALT TREATIES

Secretary SHULTZ. Yes, but the problem here highlights the difficulty with the unit of account in the SALT treaties and emphasizes the importance in the change in unit of account that is reflected in the INF Treaty and in what we have already agreed to with the Soviets on START, namely just to have a unit of account with launchers with warheads constrained only at such a level that the constraint doesn't really mean much. That is not the way to go.

Senator BUMPERS. I agree totally on that.

Secretary SHULTZ. The way to go is with launchers, warheads, and—and look at all of these things.

Senator BUMPERS. I agree with you totally on that. But if we continue to talk about reduction of 50 percent of the warheads on both sides and we don't restrain ourselves, ultimately the Soviets are not going to either.

START TREATY

Secretary SHULTZ. In the START treaty, which we are negotiating, a great deal has been agreed to; among other things, a limit of 4,900 ballistic missile warheads has been agreed to, along with accounting rules for those warheads that are pretty good.

We have agreed to a limit of 6,000 warheads all together. In other words, there are 1,100 nonballistic missile warheads that you can deploy without reducing the number of ballistic missile warheads; and we have some good proposals on the table for an accounting rule. We have agreement on a bomber counting rule.

So, to a certain extent, that level of where we are going has been worked out. There are many other difficulties involving such things as mobiles and a major issue involving sea launched cruise missiles that are hard to resolve.

And of course, we have other things, including verification difficulties. But even there, we have two protocols and an MOU that we now are working off a joint draft text and made a lot of headway in eliminating brackets and so on. So, there has been a great deal of progress in this.

DEALING WITH GORBACHEV

Senator BUMPERS. This is a long, complex subject, Mr. Secretary, and I don't want to belabor it. I just wanted to make that point.

Mr. Chairman, I have just one last question that really is troubling to me. That is, we have this summit coming up, and I am one of those people incidentally who think we ought to get the INF Treaty out. I think the hearings have gone on much too long. Everybody understands what the issues are now, and I think we ought to get it out; and we ought to have it ready for the President when he goes to the summit.

Now, as you know, I am not the Majority Leader. So, I am just speaking for one person; but having said that, I also want to make one statement. If you would care to comment, I would like very much to hear your comment.

It seems to me we have been waiting for about 7 years for all the old Bolsheviks to die off in the Soviet Union, and we have been looking for some new kind of leader there. You know, you don't have to be naive to believe that a lot of things are going on in the Soviet Union.

I have heard you say publicly and privately that there are a lot of things going on over there, as far as openness and the way the people feel. And we don't have to let our guard down; we can keep our powder dry.

But it does seem to me that some of the rhetoric, and especially before this summit, is counterproductive and plays right into the hands of the some of the hard-liners and the detractors.

Now, I know that perhaps from your personal conversations with Gorbachev, I understand that he has said we make much too much of the differences there. Yet he mentions that in almost every public utterance, that there are still differences.

So far as the arms race is concerned, so far as any kind of a meaningful future detente that really is meaningful, maybe more trade—they are improving their human rights record—maybe even tearing down the Berlin wall—all of those things—we can't tell the Soviets what to do; and we have no right to meddle in their internal affairs.

But there are some things we could do that, in my opinion, would at least provide a small dividend to Gorbachev that would be helpful to him in dealing with his detractors, whether it is Ligachev, or whoever it may be. It seem to me that if Gorbachev does fall in the next 2 or 3 years nothing good can come to the United States as a result of that.

So, why we want to continue the Soviet bash about whether he is probably lying about getting out of Afghanistan or he is only negotiating because we are just as strong and we forced him to, that doesn't make any sense.

I saw your statement as the spokesman for the State Department saying that Gorbachev was overreacting. Maybe he is, but I am not at all sure, just based on what I know about it, that I wouldn't have reacted in precisely the same way.

They seek world acceptance. They want acceptance from us, for that matter. As I am saying, I am not suggesting we be naive or that we let our guard down and that we not keep our powder dry; but I am just saying that I cannot for the life of me understand what this gets us.

Secretary SHULTZ. First of all, I think there is no question about the fact that changes are taking place in the Soviet Union. No one has been more critical really of the structure of their economic policy and other aspects of what has taken place there than Mr. Gorbachev.

And if you read his book, you see a very powerful critique, and I think that you see evidence all around there that there is a difference. How able he will be in the end to make major changes, how long it will take, how far they will go are debatable points. It is difficult.

In the meantime we have to recognize that our value system is different from theirs, that their interests and our interests are different, that they do have an awesome military capability that is there, that they have projected that power in various parts of the world.

And so, we have a lot of issues with them; and because of those facts, we know that this relationship is in the best of circumstances a difficult one to manage.

It is very important and very difficult. So, we have gone about it by recognizing that it is essential for us to have the ability to defend our interests and our values, that we need to conduct our relationship on a broad basis with them.

There is a tendency for people to focus on arms control, and arms control is important obviously; and we work hard on it. But we have throughout the Reagan Administration conceived of this relationship as consisting of our bilateral matters. There have been great developments in those; human rights issues, regional issues, and arms control issues.

RECENT PROGRESS AND DEVELOPMENTS

Compare the situation now with, say, 2½ to 3 years ago. When I was in the Soviet Union most recently, I compared where we are now with where we were when Foreign Minister Shevardnadze and I first met. If you make such a comparison, if you take the time of the President's Geneva Summit Meeting with Mr. Gorbachev, and then look at the situation now, you see very big, important, significant changes.

In the field of arms control, you see the Stockholm CDE Agreement. That was the first time that an agreement was made for on-demand, on-site inspection of a military activity.

Since that agreement was reached the capabilities have been exercised by both sides. By and large, I think you would have to say it has been successful.

We have reached the INF agreement, which is a very significant agreement in many respects. I won't go through all of that; but in arms control, those things have been agreed to. We have made a huge amount of progress in the START area. Whether we will be able to complete that soon or not is a question; but nevertheless, there has been a tremendous amount of progress made.

We have made progress in the area of chemical weapons. We are working hard in Vienna for a mandate that will, among other things, construct a new negotiating forum, I think on a better basis, to negotiate about conventional arms in Europe. So, there has been a lot of headway there.

REMAINING PROBLEMS

In the human rights field, we have many problems remaining. There are cases that we talk to people about. And we meet with people in Moscow when we go there. I always meet with the refuseniks. And it is pathetic, the cases that you hear about and can't imagine. But they are there.

So, we have lots of work to do. Nevertheless, we see emigration levels much higher than they were 2, 3, or 4 years ago. We see a lot of people who were confined there who are now released, people whom we consider to be important and have made representations about. We have a dialogue with them about things like psychiatry and about their laws. Assistant Secretary Shifter has done an outstanding job in constructing this.

We now have roundtables discussing these. So, there is a lot to be done; but there has been change.

REGIONAL ISSUES

On regional issues, since the President spoke at the U.N. about 3 years ago or so on how we saw that, we have had periodic discussions with the Soviets about various tension points around the world. Those discussions have not been particularly fruitful, except in a few areas; but they have become better, more realistic.

And of course, we now see the Soviets leaving Afghanistan. And while the principal reason, I am sure, is that the Afghan people have been so strong, and we and others have supported them in that, at the same time I don't think the ability to talk through the issues hurt matters.

We have seen some progress in the Iran-Iraq war, although we are disappointed that the Soviet Union doesn't seem to be prepared to go ahead with a second resolution.

At any rate, we have seen and we see more fluidity in the situation almost everywhere—Southern Africa, Cambodia, We have engaged them in talks on the problems of Ethiopia. We see progress there, too.

BILATERAL RELATIONS

In our bilateral relations, we continue to have difficulties. We have discussed the Moscow Chancellory and related problems. Nevertheless, we also have seen quite a number of ways in which our activities have progressed. So, we have seen major advances over the last 2 to 3 years in our relationship with them.

We believe it is important to continue to follow the lines of strategy that have got us this far. And that includes maintaining our capability to defend ourselves adequately. It includes a readiness to negotiate with them and reach agreements where we can; but it also, I think, means that we continue to say what we think the reality is.

And we must call it as we see it, and be candid with each other. I think the President said when the General Secretary was here that we owe each other—I think his words were—"the compliment of candor." Let me tell you, Gorbachev can be very candid.

I have logged a lot of hours with him. He is a very direct, energetic, interesting person, extremely able; and I think candor is important in all of this.

So, we see a lot of progress. I think we have an important opportunity for further progress in this relationship; and if we can make it, it will make a great deal of difference.

But as you said, we have to keep our powder dry, and we don't want to be naive. Those are all watchwords for us.

Senator BUMPERS. Thank you, Mr. Chairman.

KEEPING AN EYE ON THE TARGET

Senator HOLLINGS. You don't have to worry about Gorbachev being sustained. China will sustain him. You can write Richard Nixon a letter and thank him for glasnost. The Soviets adulterated it with detente.

But it worked with China, and you can write a letter to Deng Xiao Ping for perestroika. And with that one billion Chinese working both glasnost and perestroika on their flank, don't worry about Gorbachev. That will keep him honest and working in that direction. They have got to.

It is not just that we now have a nice warm personality who wants to get out of Afghanistan. I worried about them down in Nicaragua. They give $50 million a month, $600 million last year, to Managua, and it stepped it up. I am not worried about getting him out of Afghanistan; I am worried about getting him out of the Wester Hemisphere.

And I think we ought to keep our eye on the target.

Secretary SHULTZ. Yes, sir. I said I am glad you broadened it from Nicaragua. They put about $5 billion a year into Cuba.

LETTER FROM MAYOR OF NEW YORK

Senator HOLLINGS. We discussed the diplomatic security program in the closed session. However, I waant to make a part of our record a letter from the Honorable Edward I Koch, the mayor of New York City, regarding the protection of foreign missions, in particular the United Nations in New York.

[The letter follows:]

THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

April 25, 1988

Hon. Ernest F. Hollings
Chairman
Senate Appropriations Committee
Subcommittee on Commerce, Justice, State,
the Judiciary and Related Agencies
125 Senate Russell Office Building
Washington, D.C. 20510

Dear Fritz:

I would like to take this opportunity to urge full funding of two separate but closely allied Diplomatic Police Protection reimbursement programs: one for United Nations Dignitaries, authorized by P.L. 94-196, and the other for consular officials, authorized by P.L. 98-164, the 1984 State Department Authorizations Act. New York has a substantial stake in both of these programs since the City serves as host to the largest diplomatic community in the world -- consisting of over 32,000 foreign officials and their families, associated with 159 United Nations missions and 88 foreign countries.

The type of protection reimbursed by these programs is "extraordinary protection." Provision of extraordinary protection is based on threats posed against specific diplomats and foreign properties at specific times. Such protection allows dignitaries to continue to perform their duties in an unhampered and safe manner. This type of protection, far exceeding the scope and responsibility of normal local police activity, actually fulfills a federal responsibility assumed through a reciprocal international agreement.

To date, the combined appropriation of $9 million for the United Nations and consular protection programs has not proved problematic. At least $7 million of this amount is expected to be used for protection provided to United Nations officials and dignitaries visiting the United Nations. The City is concerned that substantial delays between claim submission and actual reimbursement and the lack of regulations implementing either program lead to budgeting and accounting difficulties and result in uncertainty as to whether $9 million is sufficient. In addition, there is always a lack of certainty when predicting necessary funding for the United Nations and consular protection programs, due to the inability to predict visits by world figures during the coming year. A single visit by certain leaders can seriously increase the budget for these programs.

In providing diplomatic protection, the New York City Police Department is serving all Americans, and is doing so for considerably less than it would cost the Federal government. The Treasury Department testified before Congress nearly six years ago that if the Federal government were to physically provide this protection, as it does in Washington, it would cost $20.1 million in the first year alone, with an annual cost thereafter of $14.5 million. Surely, in this light, the $9 million appropriated for these two programs is not unreasonable. In fact, considering what it might cost the Federal government to provide this protection today as a result of inflation, it is a real bargain for the United States -- something rare in this day and age.

The City of New York is very appreciative of the support that your committee has given these programs in the past and I urge you to continue to fund them at their authorized levels.

All the best.

Sincerely,

Ed

Edward I. Koch
MAYOR

CONCLUDING REMARKS

Senator HOLLINGS. That is right. And then we think they want peace with us, when they are moving into all these other places.

We do have some other questions, Mr. Secretary, that Senator Lautenberg requested that we insert for the record.

Senator Lautenberg requests a written response to these questions for the record.

I want to thank you for your outstanding job, Mr. Secretary. Let me publicly acknowledge the wonderful help we have gotten from Tom Weston, Ross Starek, Dick Dertadian, Chuck Casper, Barry Gidley of you Department. They worked around the clock with our staff getting all the information. They were a very big help, and we appreciate it very much.

ASIA FOUNDATION

Senator Hollings. I will make part of the record a statement from Ambassador Haydn Williams, the President of the Asia Foundation.

(The statement follows):

THE ASIA FOUNDATION FY 1989 BUDGET REQUEST

THE SENATE APPROPRIATIONS SUBCOMMITTEE FOR

COMMERCE, JUSTICE, STATE, THE JUDICIARY AND RELATED AGENCIES

Haydn Williams
President, The Asia Foundation
April 28, 1988

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to present The Asia Foundation's request for a $15 million general grant for FY 1989. The House and the Senate have already authorized this amount for the Foundation's operations in twenty-five countries in Asia and the Pacific for the coming year.

The Department of State in its recent testimony at the appropriation hearings in the House on the FY 1989 budget, stated that the Foundation is making "important and distinctive contributions to American foreign policy in Asia and the Pacific" and that today, "The Asia Foundation...continues to be the primary private American organization furthering the ideals and practices of constitutional democracy in Asia." The Department's spokesman continued, "Indeed, some of the most important individuals and organizations in Asia calling for peaceful progressive democratic change are, or have been associated with the Foundation."

The Foundation acknowledges that it has been able to respond in a timely and flexible fashion to Asian initiatives and requests for assistance in democratic institution-building efforts only because of the support it has been receiving from the U.S. Congress. Funding for the current year, for example, is being used to help strengthen national and provincial legislatures, the courts of Asia, the administration of justice, and a greater respect for civil liberties and human rights. Other Foundation funds made available by the Congress are going to broaden the role of the private sector and true pluralism upon which free and democratic societies are built. To carry out these purposes, the $13.7 million FY 1988 General Grant will have all been spent or obligated before the end of the current fiscal year.

While recent history, and the past year in particular, have brought many positive developments in Asia, even greater challenges lie ahead. Democratic gains in the Philippines, Korea, Thailand, Taiwan and Pakistan need consolidation and sustained encouragement. Martial law has been lifted in some countries, followed by presidential and parliamentary elections. New constitutions have

been drafted and ratified by popular consent. Judiciaries, as defenders of democracy and individual rights, are being strengthened. A yearning on the part of the people for more openness and more opportunities for citizen participation in local and national affairs is providing the Foundation with an increasing array of opportunities to help move the democratic process along in ways acceptable to Asians.

To carry this program forward the Foundation requests a general grant of $15.0 million for FY 1989. These support funds are needed to cover the basic costs of the Foundation's program activities in Asia, and the Pacific, and in the U.S. The funds will be used also to maintain the Foundation's ten field offices, the San Francisco headquarters, the Books for Asia program, and the Foundation's Center for Asian Pacific Affairs.

The Foundation's three primary priorities for FY 1989 are: a continuation of the Foundation's successful open, just and democratic societies program; an expansion of the Foundation's program in the South Pacific; and a programmed response to the growing challenge to American interests of unequal and unfair economic policies in the Pacific trade arena.

1. Open Just and Democratic Societies Program (OJDS): Under this program, which is at the heart of the Foundation's work, the following objectives will be pursued by helping:
   - To strengthen the basic workings of national legislatures and respect for the rule of law.
   - To decentralize political authority by strengthening provincial and local government.
   - To further civic education, voter registration and greater participatory democracy.
   - To modernize the courts and make systems of justice more equitable and accessible to the people.
   - To promote the free flow of information and open public discussion of national and local issues.
   - To encourage the private sector, the private voluntary organizations, the business sector, and urban and rural development.

The countries which will receive tne highest priority for OJDS funding in FY 1989 are: The Philippines, Korea, Taiwan, Thailand and Pakistan. In the Philippines, the Foundation will carry forward, if funds are available, its effort to encourage and assist in the rebuilding of that country's basic democratic institutions, including its new Congress and its new provincial governing bodies. Continued support will be given for the courts, judicial education, and for a general strengthening of the Philippines legal system, including grants for legal literacy and legal aid programs. Human rights organizations will be assisted. Local efforts to help with the mammoth task of revitalizing the economy will also be supported, including grants for rural education, private entrepreneurship training, and provincial small business resource centers. The problems of agrarian reform will also be addressed. With what is at stake, now is certainly not the time to lessen the American effort to help the Philippines in a time of continuing need.

In Korea, the Foundation will take advantage of opportunities stemming from the recent democratic reforms that have taken place in that country. Former Asia Foundation grantees, now in positions of growing importance in the National Assembly, the judiciary, government ministries, the universities, the press and the private sector, are opening doors to the Foundation for new projects intended to further solidify the democratic gains which have been made. Work will also continue with the Korean League of Women Voters, the Korean press, the Korean Federation of Bar Associations and with various research institutes concerned with political development.

In Taiwan, The Asia Foundation has long been associated with the liberalization and democratization process which is now

moving ahead with such surprising speed. Foundation grants have been directly related to the growing responsibilities of the Provincial Assembly and the National Legislative Yuan, and with numerous other initiatives, many of which have led the way to peaceful change. More funds are needed to permit the Foundation, as the sole American private grant-making Foundation in Taiwan, to continue its broad based program which has already contributed substantially to the remarkable political evolution that is now underway in the Republic of China. In this particularly important and sensitive political transition period, efforts to reinforce these positive trends are in need of continuing support.

Thailand's steady movement toward democracy has not been as widely recognized or appreciated as some of the more highly publicized changes in the Philippines, Korea and Taiwan. Yet progress has been made. General elections have been viewed as being free and fair and the Parliament has been developing into a major political institution. While the Foundation will be broadly involved through support for a variety of projects, in FY 1989 it will continue to give priority to strengthening representative government at the national and local levels. Grants to further strengthen the administrative structure of the Parliament, the development of library and reference services and the training of professional staff members have been requested. Other requests to increase popular participation in local elections and local government have also come from official sources. These and many other unique opportunities to encourage and advance the democratization process in Thailand are open to the Foundation in a country of great importance to the U.S. and to stability in the whole of Southeast Asia.

In Pakistan, FY 1989 will be an important year for the Foundation. The country will be preparing for national elections and the new National Parliament will be further tested. Since 1986, the Foundation has made 24 grants of various sizes for a number of purposes related to the national Parliament. The project to help establish a Parliamentary Library and Reference Service is being carried forward with the cooperation of the Congressional Research Service of the Library of Congress. More help to strengthen the basic administrative underpinnings of the Parliament is needed. The judiciary, which has regained its responsibility with the dissolving of the military courts with the lifting of martial law, will be facing a critical need for new trained judges. With the added funds provided by this year's General Grant, the Foundation is funding the first year of a three year project to help establish Pakistan's first National Judicial Academy for the pre-service and continuing education of judges. Taken all together, never in the Foundation's history have its opportunities in Pakistan been greater than they are today.

2. The Foundation's second priority for FY 1989 is to expand its operations in the South Pacific. To do so it needs to open an office in either Fiji or Papua New Guinea (PNG) and to place a seasoned Asia Foundation representative in the region. These objectives cannot be achieved within the Foundation's current budget. A minimum of $1.0 million will be required to cover the costs of a resident South Pacific Asia Foundation representative, and to increase programming in Papua New Guinea (PNG), the Solomons, Vanuatu, Western Samoa, Tonga, Tuvalu, Fiji, Kiribati and the Cook Islands.

The Foundation is being urged to do more in PNG with the parliament, the courts, the university, the lawyers association and with several other private groups. Linkages with U.S. institutions are also wanted and are desirable from a U.S. interest point-of-view. In the Solomons and Vanuatu a strong interest is being shown in the possibility of Asia Foundation assistance for short-term diplomatic training. Assistance for foreign affairs reference libraries is also being requested.

Regional training programs and exchanges between Tuvalu, Kiribati, Western Samoa and Fiji in the fields of law, human rights, court management and public administration are badly needed. Important opportunities to reach and assist rising young island leaders with their education and with their first international experiences are also open to the Foundation.

These are but a sampling of the possible projects the Foundation could undertake. Some will be started in the current year, but the full exploitation of the potential will depend upon the continuous presence of an Asia Foundation representative in the region.

3. The Foundation's third major priority for FY 1989 concerns the growing significance of the U.S.-Asian economic relationship. The most serious threat to America's bilateral relationships with the advanced and the heavily industrialized nations in the Pacific, lies in current and potential conflict in the areas of foreign trade, foreign investment and the protection of intellectual property rights. Currently the Foundation is the principal underwriter of the U.S. National Committee for Pacific Economic Cooperation which is concerned with all of these matters. This Committee, which includes ten members of the U.S. Congress, represents the U.S. in the fourteen nation Conference on Pacific Economic Cooperation (PECC), which brings together leaders from government, business and academia to address current issues. The Foundation is supporting the work of a new PECC Task Force on Agriculture Trade Policy in the Pacific as a matter of great importance to the U.S. In FY 1989, with adequate funding, the Foundation will continue these efforts. Additionally it will seek through a series of "GATT Watches" in the U.S. and in Asia to develop understanding and support for trade liberalization and the need for Asians to understand the U.S. position on foreign trade and the realities of the new global economy. In this endeavor the Foundation has had the active encouragement of the Office of the U.S. Trade Representative.

In addition to these three priorities, (1) OJDS Programming; (2) the South Pacific; and (3) U.S.-Asian Economic Relations, the Foundation will draw on the requested $15.0 million for FY 1989 for other important uses, including support for its unique China program and for its activities in Sri Lanka, Bangladesh, Malaysia, Singapore, Indonesia and Japan. General Grant funds will also be needed to provide base support for the Foundation's thriving Books for Asia Program. Based on past experience, one dollar of public funds will attract from ten to fifteen dollars of counterpart contributions from the private sector in support of the Foundation's book program, which has the capability of sending approximately 1,500,000 American books and journals to Asia and the Pacific next year.

In a word, Mr. Chairman, the requested $15 million General Grant will be the organization's life blood for FY 1989. With this base support for institutional needs and for the Foundation's grant-making program, which involves the development, approval, administration and evaluation of over a thousand sub-grants, the Foundation will be able to attract matching American and Asian contributions. Exclusive of Asian counterpart funding, it is expected that the American private sector's contribution will equal or exceed the amount requested from the Congress for FY 1989.

In the State Department's Report to the Congress in April 1983, it spoke of the need to provide the Foundation with year to year financial stability in order for the organization to plan ahead with some degree of confidence. The Department recommended five years ago a base level of $10 million with the Foundation's needs

being reviewed annually. The Foundation does indeed require a sense of financial stability since it must be able to plan ahead; to retain its credibility as a grant-making organization, it must be able to undertake and meet forward obligations. This it cannot do if funding requests and appropriations fluctuate widely up and down from one year to another and if the Administration's budget request falls below the base level it itself called for some five years ago.

In enacting The Asia Foundation Act of 1983 the Congress took the lead in giving the Foundation the stability it has needed. For FY 1989 the Foundation requests $15.0 million, the amount authorized by the House and Senate. This increase of $1.3 million is needed most of all to permit the Foundation to open an office and to expand the American presence in the South Pacific. Additional funds are also needed to take advantage of the Foundation's unusual opportunities to further the cause of justice and human rights throughout Asia through its work to strengthen Asia's judicial systems. These and other openings to keep the current momentum going toward more democratic societies in Asia, will fully absorb all of the funds requested.

In closing, I wish to acknowledge the courtesies and cooperation the Foundation has enjoyed from the operating Bureaus in the Department of State and from the American Embassies in Asia during the past year. The East Asia Pacific Bureau in particular has been helpful. I also wish to take the opportunity to once again thank this Subcommittee, its members and their staffs for the encouragement and understanding shown the Foundation. It is my sincere hope that whatever success the Foundation may enjoy, that those on the Hill will feel some sense of satisfaction in knowing that they have made our efforts possible.

Thank you Mr. Chairman.

SUBMITTED QUESTIONS

Senator HOLLINGS. If there are no further questions, we will submit what I have and others have for the record. And this will conclude our hearing for today.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ERNEST F. HOLLINGS

MOSCOW

Last year this committee twice approved my amendment that:

(1) Restricted the use of funds available for the office building in Moscow except to demolish the upper 8 floors of the structure,

(2) Ensures that the Soviets will not occupy their new chancery on Mount Alto until:
(A) A suitable new building is available in Moscow;
(B) The Soviets have reimbursed the United States for damages incurred with the Construction of the New office building in Moscow;

(3) Requires the Department of State to develop a plan establishing essential parity in numbers, types, and quality of buildings in capital cities.

(4) Calls for a hiatus on new embassy construction until the management of overseas construction is organized under an Under Secretary of State having responsibility also for the Office of Foreign Missions and Bureau of Diplomatic Security.

(5) Requires the Secretary of State and Director of the Central Intelligence to convene a panel of experts to review and analyze the plans, contracts, and protocols of any construction projects of the Office of Foreign Buildings.

The Senate has twice approved this amendment but our House counterparts have resisted it. In fairness to our colleagues on the Foreign Relations and the Foreign Affairs Committees, they had some complimentary provisions in the Foreign Relations Authorization Act -- particularly with regard to Mt. Alto -- that the Department demanded our exempting in the Continuing Resolution last year.

Question. Why does the Department oppose these provisions?

Answer. The Department recognizes and shares your interest in rectifying the current situation with regard to the status of Embassy construction in Moscow and Washington. We have already embarked on what we believe is a prudent course which will terminate in the completion of a secure Embassy facility in Moscow. In developing our plans we have addressed many of the concerns which you have expressed. For instance, an engineering/security survey team is determining, among other things, exactly how to dismantle and rebuild the current new office building (NOB). Although demolition of the entire eight stories is a likely recommendation, we wish to leave no stone unturned in the search for the most feasible solution. Therefore, the study does address other options. With regard to Mt. Alto, the Department has repeatedly made clear that the Soviets will not occupy

their chancery until we are ready to occupy a suitable, secure chancery in Moscow. Also, along with other claims, we have formally demanded arbitration of our claim for losses resulting from Soviet NOB actions and are pursuing our options on this claim. Parity in numbers of personnel permanently assigned to the respective missions is in effect. Until we have established and acquired the building resources commensurate to our level of operations in Moscow, it would be premature to establish distinct limitations on Soviet property in Washington. However, once our needs have been determined, the subject of parity should and will be addressed.

Your amendment also recommends a hiatus on new embassy construction pending creation of a new Under Secretary position and calls for creation of a panel of experts to analyze new construction projects. As you know, the Department proposed and the President agreed to create an Executive Level III Director of Diplomatic Security. We believe this office should concentrate its energies upon the formidable task of maintaining the security integrity of Department functions. Assimilation of additional responsibilities for embassy construction and maintenance of reciprocity would be counterproductive to the efficient conduct of its primary task. With regard to the panel of experts, the degree of cooperation in the process of site selection, negotiation of conditions of construction, building design, contracting and development of logistical arrangements is unprecedented, is working well and should not be complicated by additional layering.

The Department is fully committed to working with the Congress to address these and other questions related to Moscow as well as other construction projects. We share similar concerns and, to a large degree, are pursuing the same solutions. As the process seems to be working, we do not see the need for specific legislation related to the issues at this time.

Question. Am I correct that the National Security Council has approved an upgrading of the Assistant Secretary for Diplomatic Security to an Executive Level III position comparable to an Under Secretary? Has the Department submitted the necessary legislation to accomplish this?

Answer. The Department has proposed and the President approved that the current Assistant Secretary for Diplomatic Security Position (Executive Level IV) should be upgraded to a Director of Diplomatic Security at Executive Level III. We proposed language for the FY 88-89 Authorization Act, but the Conference on that bill deleted all organizational modifications. Legislation has not been formally resubmitted since then, since no State authorization bill will be considered until next year. Informal discussions on this issue have occurred with the Senate Select Committee on Intelligence and the Senate Foreign Relations Committee. The SFRC has indicated that they prefer that this issue be looked at in the context of overall Departmental organization in hearings planned for later this year. We will continue to pursue the matter.

Question. The Department has contracted with BDM to evaluate the New Office Building. While I don't think that it needs to be studied further, will the BDM study be completed in time for consideration in the 1989 appropriations process?

Answer. The due date for submission of the final report is August 25, 1988. However, progress reports are specified at regular intervals during the conduct of the study. Information and tentative conclusionns presented in these progress reports should provide guidance for evaluation of options prior to receipt of the final report. The Department expects to provide for the consideration of the Congress, a proposed plan for dismantling and reconstruction of the New Office Building before the end of this fiscal year. As a practical matter, at this time, it is not envisaged that funding for physical dismantling and reconstruction of the building will be requested for fiscal year 1989.

Question. How much is the BDM study costing and what will it tell us that we don't already know?

Answer. The basic study will cost $421,634. An amendment to include study of an option to retain the Existing Office Building as a secure facility will subsequently be concluded. The cost of this amendment has not yet been determined. The principal value of the study is that it will recommend specific methods for dismantling and reconstruction of the building. It will also address the logistical elements necessary to ensure the new structure can be erected safely and securely. In the unlikely event it is determined that construction of a secure facility on the site is not feasible, that study will have already investigated the feasibility of utilizing the existing building as a secure chancery.

Question. How are we progressing on recovering the damages the United States and our contractors sustained erecting the New Office Building?

Answer. During the past three years, we have commenced arbitration proceedings against the Soviet Union on a series of claims concerning the entire new U.S. Embassy complex. The Department served a pre-arbitration claim on the Soviets in February 1984 for damages resulting from delays in completion of the work. The Department formally commenced arbitration proceedings on this claim on September 12, 1985 by demanding arbitration against the Soviet contractor (a Soviet foreign trade organization, Sojuzvneshstrojimport). In March 1987, the Department made another pre-arbitration claim against the Soviets, for damages relating to defective workmanship in the New Office Building, including intentional contract breaches relating to the planting of electronic surveillance devices. A third claim, for defective workmanship in other parts of the complex, was initiated in April 1987. The Department supplemented its demand for arbitration on March 4, 1988, adding to the arbitration both the claim for intentional (i.e. security-related) defects in the New Office Building and the defective workmanship

claims. This time the demand was directed to the USSR itself, as well as to the Soviet contractor. Two rounds of negotiations have made no progress toward a settlement and the Department is vigorously preparing for the prosecution of these claims.

Question: We have reprogrammed more than $30,000,000 into refurbishing the present office building in Moscow. In your recent trip to Moscow did you find that we have restored that building to full operation after the shutdown due to the revelations of last year?

Answer: Much work has been accomplished since we initiated the rehabilitation program in June 1987. The new secure communications facility began operations March 17, giving the Embassy a full-scale secure communications capacity. Work on relocating other sensitive Embassy operations to new secure areas continues on track. We are working to have the first of the new secure conference facilities ready for use before the Summit in late May. Work on the new heating and fire safety systems is on schedule and we expect those systems to be operational by October.

The renovation is being accomplished on a fast-track program whereby certain areas of the building are under construction while other parts are being designed. All major line items involved are on track at this point in time.

We continue to stage our renovation and security enhancement activities through a secure logistical chain procuring and transporting construction materials and equipment via secure air transport to Helsinki and then on to Moscow.

Question: When will these renovations be completed?

Answer: The renovations as currently envisaged are scheduled for completion at the end of calendar year 1989.

Question. While I realize we had no other course than to renovate the old building, investing $30,000,000 more in that implies continued United States use of that building. The agreement on the new building -- if ever occupied -- provides for the u.s. returning the existing building to the Soviets in its original condition. Are we renegotiating the agreement on the old building?

Answer. The Department has suggested to the Soviets an extension of the lease on the existing building for a period of at least five years. In addition, Deputy Secretary Whitehead, during discussions in Moscow in November, 1987, stated that we may need to remain in the building beyond the period of construction of the new chancery. The ultimate use of the existing building will be a critical element in the Department's position with regard to the dismantling and reconstruction of the New Office Building. Until

completion of the engineering/security study, it would be premature to specify the ultimate use or disposition of the existing building. Once a final decision is reached, the Department will make the necessary adjustments to the bilateral agreements.

Question. As indicated earlier, the Foreign Relations Authorizations Act contained strong provisions regarding our withdrawing from the 1969 Embassy Agreement with the Soviets and prohibited their use of Mt. Alto. The Department demanded that we set this aside in the Continuing Resolution, which has upset a lot of people, particularly Representative Olympia Snowe of the House Foreign Affairs Committee. Why does the Department object to these provisions?

Answer. The Department, no less than Congress, is concerned about security in Moscow and elsewhere. However, unilateral withdrawal from our agreements with the Soviets would have had a serious negative impact on our relations, and would have created significant problems with operations in Moscow. If we were to force the Soviets off of Mt. Alto, we would undoubtedly face reciprocal expulsion from our new compound in Moscow, thus sending our people back into KGB-controlled apartments scattered throughout Moscow. In addition, such action would have removed incentives for the Soviets to cooperate with us in rehabilitating the old embassy and in negotiating an extension of our lease on that building until we have a new facility. Although the provision may have been intended to strengthen our hand in negotiations with Moscow, we believe it would only have made our efforts more difficult.

Question. How much of Mt Alto do the Soviets now occupy and how are they allowed to use the site? For instance, are they permitted to have radios on that site?

Answer. The Soviets are permitted use of all buildings at Mt Alto except the chancery building proper. They actively use the housing complex and reception facilities as our Embassy uses the housing, dining, recreational and other facilities on the new compound in Moscow. The Soviets have not, to the knowledge of the Department, utilized the main chancery building on Mt Alto. They receive local television broadcasts via antennas on the housing complex. The Department has no indication that they are employing radio transmitters or receivers for official communications purposes.

Question. How much are the Soviets inconvenienced by remaining at their present site on 16th street?

Answer. For a number of reasons including personal security, convenience and improved office facilities, the Soviets are anxious to occupy their new chancery on Mt Alto. Their concerns are not dissimilar to ours in Moscow with the exception that they stress the matter of the personal security of their employees as

a vital reason for co-locating their office operations. It would not be accurate, however, to infer that the Soviets are more disadvantaged by the present state of affairs than are American officials in Moscow.

KIEV

Question. Mr. Secretary, in January 1986 you signed off on the United States resuming a full-fledged operation in Kiev. This followed the first Reagan-Gorbachev Summit in Geneva when apparently we agreed to reopening the Consulates in Kiev and New York as some sort of symbol that something really happened in Geneva. Before the consulate could be reopened, we had the Chernobyl disaster and Kiev was shelved.

You know, better than I, of the concern of giving the Soviets another intelligence base in the United States. Am I hearing correctly that you are really thinking about reopening Kiev and allowing the Soviets to reopen their Consulate in New York?

Answer. Yes. We continue to believe that opening a consulate in Kiev is important to improving bilateral U.S. - Soviet relations and to achieving a number of our objectives. A consulate in Kiev will open a window onto a vital new area for social, political and economic reporting on a wide range of issues at a time of great opportunity. Millions of Americans have family ties to this region of the USSR, and it borders on four sensitive countries in Eastern Europe. Promoting U.S. business will also be an important consulate activity since the Ukraine is a major commercial and industrial center. Our opening a consulate in Kiev, as President Reagan and General Secretary Gorbachev agreed at the Geneva Summit, is tied to the Soviets' opening a consulate on a reciprocal basis in New York.

Question. Section 153 of the Foreign Relations Authorization Act states that the Soviets shall not occupy any new consulate in the United States until the United States Mission in Kiev is able to occupy secure permanent facilities. Our staff accompanied former Assistant Secretary Bouchard and Deputy Assistant Secretary Dertadian to Kiev in January 1986. They were not shown any facilities that would meet that test.

Are you proposing having an unclassified post in Kiev and what will it consist of in terms of personnel and money?

Answer. The Department proposes establishing a small consulate in Kiev now which would enable us to begin operations quickly and on a cost-effective basis while preserving our flexibility for the future. At the beginning of its operations the consulate will have a staff of six American personnel, some of whom

may be contract employees similar to those now employed in Moscow. Classified operations will not be undertaken initially, and we cannot say at this time when we might be in a position to do so. Current cost estimates indicate that first year and start-up costs will be approximately $3.8 million, exclusive of security costs. The precise physical security requirements involved are still to be determined.

Question: How can we be thinking of opening up an office in Kiev when the Department is closing posts in Dusseldorf, Strasbourg and elsewhere that are certainly more important to the foreign policy interests of the United States?

Answer. The Department believes that opening a consulate in Kiev is important to U.S. foreign policy interests, and sees nothing inconsistent with closing posts of lesser importance as we open new ones, especially in times of budgetary austerity. As a result of an internal Department review of the posts scheduled for closing in FY 1987, it was determined to keep our consulate in Strasbourg (France) open and to proceed with closing the consulates in Dusseldorf (Federal Republic of Germany), Goteborg (Sweden), Tangier (Morocco) and Turin (Italy). No final determination has yet been made with regard to the other two posts on the 1987 list: Maracaibo (Venezuela) and Salzburg (Austria). The U.S. Department of Commerce still maintains a Foreign Commercial Service post in Dusseldorf.

INF TREATY

Question. After years of rejecting Soviet proposals to ban conventional Ground-Launched Cruise Missiles (GLCMs), why did we change our position and accept the ban which effectively kills the major U.S. technological hope to counter the Soviet conventional edge?

Answer. The USG decision to ban conventionally armed GLCMs took into account a number of considerations. It is important to remember what the issue was not about. It was not about whether to permit planned U.S. deployments of conventionally-armed GLCMs; nor was it about whether to withdraw from Europe previously deployed systems. Rather, the decision to be made was whether or not to protect the option for deploying conventionally-armed GLCMs of INF range. At the time of the decision, the U.S. and NATO did not -- and do not today -- have any specific plans or military requirements for conventionally-armed GLCMs in the INF range.

Moreover, the USG has fully protected its right to deploy INF range conventional air- and sea- launched cruise missiles. Such systems are not covered by the INF Treaty, and our position in START is that there shall be no limits on conventionally-armed cruise missiles. The INF Treaty also does not cover GLCMs with ranges below 500 kilometers.

Allowing Soviet deployment of conventional GLCMs could have exacerbated the existing conventional imbalance (and added to

Soviet ability to deliver chemical weapons), especially given the possibility that the Soviets would deploy these systems in far greater numbers than NATO. Any deployment by NATO of additional land-based intermediate-range missiles in Europe would, in the current political climate, be a complicated task.

In addition to these reasons, we also had to consider the verification difficulties inherent in distinguishing between nuclear- and conventionally-armed GLCMs. The USG was unable to develop -- and the Soviet Union did not put forth -- a regime to verify effectively the differences between the two types. Thus, in the context of the INF Treaty, by permitting Soviet conventionally-armed GLCMs, we would have to assume for military planning purposes that the entire force was potentially capable of delivering nuclear weapons.

Question. You cite verification problems as a key reason for accepting the ban. Yet, the verification of conventional ALCMs and SLCMs when we also possess nuclear ALCMs and SLCMs would be even harder than verifying an all conventional GLCM force. How can you protect the ALCM/SLCM force in the START Treaty when a major reason cited by Administration officials to justify the ban on conventional GLCM is due to problems of verification?

Answer. The USG decision to ban conventionally armed GLCMs took into account a number of considerations. It is important to remember that at the time of the decision, the U.S. and NATO did not -- and do not today -- have any specific plans or military requirements for conventionally-armed GLCMs in the INF range. Allowing Soviet deployment of conventional GLCMs could have exacerbated the existing conventional imbalance (and added to Soviet ability to deliver chemical weapons), especially given the possibility that the Soviets would deploy these systems in far greater numbers than NATO. In addition to these reasons, we also had to consider the verification difficulties inherent in distinguishing between nuclear- and conventionally-armed GLCMs. In the context of the INF Treaty, by permitting Soviet conventionally-armed GLCMs, we would have to assume for military planning purposes that the entire force was capable of delivering nuclear weapons. By banning all GLCMs of INF range, and requiring the elimination of all existing INF GLCM missiles and launchers, we make covert Soviet deployment of INF-range GLCMs more difficult and costly especially since they have not yet deployed GLCMs. Moreover, without flight-testing, crew training and exercising with equipment, the operational capability of any covertly stored GLCMs would be seriously degraded over time. Conversely, the Soviet ability to maintain an operational nuclear GLCM capability under the guise of a permitted conventionally-armed GLCM program would be high and would provide the Soviets a ready means of breaking out from the Treaty.

With respect to other conventionally-armed cruise missiles, U.S. proposals in START are formulated specifically to retain our conventionally-armed air-launched and sea-launched cruise missiles outside START limits (i.e. not covered by a START agreement), as the START negotiations deal exclusively with nuclear arms. Thus, the U.S. and USSR have agreed for the purpose of START to consider limitations on only nuclear-armed long-range ALCMs and SLCMs. The U.S. and the USSR already have substantial forces of conventionally-armed sea-launched cruise missiles which comprise an important element of their naval conventional capabilities. For the U.S., future conventionally-armed air-launched cruise missiles will address other pressing conventional requirements. Although there are problems with distinguishing nuclear-armed and

conventionally-armed SLCMs, the facts that military requirements for conventionally-armed cruise missiles have been established and that nuclear-armed cruise missiles will not be banned in START distinguish the START case from the INF case.

Conceptual agreement in this area was recorded in the December 10, 1987, Washington Summit Joint Statement and reaffirmed by the Foreign Ministers during their March meeting in Washington and April meeting in Moscow. Further, during the May 11-12 Foreign Ministers Meeting in Geneva, the sides agreed that future conventionally-armed air-launched cruise missiles will be distinguishable from nuclear-armed ALCMs and thus will not be treated as nuclear-armed ALCMs. Our negotiators in Geneva are addressing the remaining differences concerning these issues on a priority basis.

Question. The article-by-article analysis of the Treaty submitted by you -- included in the message of the President on the Treaty -- describes both ground-launched ballistic missiles and GLCMs as those flight-tested or deployed with any type of warhead device. I emphasize warhead. Moving to the question of future technologies and what is allowed or not allowed by the Treaty -- you now state that all ground-launched ballistic or cruise missiles tested or deployed to carry a weapon are banned.

-- What is banned, a device carrying a warhead or one simply armed with a weapon?

Since you admit that nothing about future technologies was discussed, negotiated, or placed in the Treaty, on what basis will we judge Soviet compliance with this unilateral position of the U.S., particularly in the face of repeated Soviet violations with negotiated provisions in previous arms agreements?

Answer. In light of the discussions between the Secretary and Soviet Foreign Minister Shevardnadze on 14 April and again on 11-12 May, the U.S. and USSR have agreed that all their intermediate-range and shorter-range missiles as defined by the Treaty, both at present and in the future, are subject to the provisions of the Treaty. Therefore, the Treaty requires elimination and bans production and flight-testing of all such missiles tested or deployed to carry or be used as weapons based on either current or future technologies, with the exception of missiles mentioned in para 3 Article VII of the Treaty.

We have explained the Administration position on this subje through extensive testimony by Administration witnesses an letters to individual Senators. In this regard, permit me review the issue.

The INF negotiating record, viewed in conjunction with the Treaty text and with customary international law and the Vienna Convention on the Law of Treaties, demonstrates that the United States and the Soviet Union share a common understanding that all U.S. or Soviet ground-launched ballistic and cruise missiles with ranges between 500-5500 kilometers, flight-tested or deployed to carry weapons both present and future, are subject to the provisions of the INF Treaty.

We decided, due to Senate concerns on this topic, to raise the issue with the Soviets. During his meeting with Foreign Minister Shevardnadze on 14 April, the Secretary outlined the U.S. view that "futuristic" weapons on ground-launched INF-range missiles were banned by the INF Treaty. The

Secretary informed Shevardnadze of the U.S. definition of "weapon delivery vehicle" and "weapon". The official translation of Shevardnadze's letter to the Secretary on 15 April expressed Soviet agreement with this U.S. position and we believe definitively put the Soviets on record on this topic. To ensure that this agreement was presented in a form which met Senate concerns that it have the same status in law as the Treaty itself, we agreed, after discussions with Senate members and staff, to seek an exchange of notes on the topic with the Soviets. The Secretary reached agreement on such an exchange of diplomatic notes during the 11-12 May Ministerial and we have submitted this material to the Senate for its consideration. We believe this exchange conclusively demonstrates that the U.S. and the USSR share the same understanding on these matters.

As we have stated before, the INF Treaty does not ban the development of any weapons based on "futuristic" technology and the United States can test and deploy systems employing futuristic weapons on delivery vehicles not covered by the Treaty. Also, the Treaty does not ban or affect in any way non-weapons deliver vehicles.

Question. The Inner-German border is less than 300 miles from the major NATO military and re-supply targets. Thus, the Soviets can legally hit these targets with nuclear, conventional or chemical missiles under the terms of the Treaty.

We can no longer strike Soviet soil with anything short of a strategic nuclear attack when we give up our long-range conventional weapons. What did we receive from the Soviets for this gratuitous concession?

Answer. The INF Treaty was never intended to limit strategic or tactical nuclear weapons. It deals comprehensively with a part of the Soviet threat that previous treaties did not address: ground-launched weapon-delivery cruise and ballistic missiles of 500-5500 kilometer range. By this Treaty, the Soviets will lose capability in both the European and Asian theaters to strike our Allies with any of the missile systems banned by the Treaty. In addition, in Europe, they no longer will have the capacity to strike with these weapons our pre-positioned major equipment (POMCUS) sites and debarkation sea and airports in Western Europe.

Furthermore, we have long been worried about Soviet capabilities to attack NATO Europe with chemical weapons. We still are, but at least two of the significant shorter-range delivery systems for chemical and conventional weapons (SS-12s and SS-23s) will be removed from the Soviet order of battle as a result of this Treaty. Our field commanders have always considered the SS-12 a particularly worrisome threat to ports of entry and airfields. In essence, the Treaty will assist in facilitating our reinforcement of Europe.

NATO will, however, retain sufficient nuclear capabilities to maintain its strategy of flexible response, and to hold important targets in Eastern Europe and the Soviet Union at risk. NATO will have about 4000 nuclear warheads in Europe on a mix of U.S. and Allied delivery vehicles: nuclear-capable artillery; short-range missiles; and intermediate-range nuclear-capable aircraft. Moreover, Allied nuclear capabilities, i.e. the independent British and French nuclear deterrent forces will be improved in the years ahead. Finally, U.S. central strategic forces will continue to be the ultimate guarantor of NATO's security.

NATO has taken the decision to modernize its nuclear systems to maintain effective deterrent capabilities. With modernization, those remaining nuclear systems will provide credible options for nuclear responses at any level of aggression. They will also provide the capability to signal the Soviet Union, in a controlled and deliberate manner, that NATO is prepared, if necessary, to raise the stakes rather than accept defeat. From the Soviet perspective, NATO will retain sufficient nuclear capabilities to persuade the Soviets that the costs of any aggression would outweigh the benefits.

By banning all GLCMs of INF range, and requiring the elimination of all existing INF GLCM missiles and launchers, we make covert Soviet deployment of INF-range GLCMs more difficult and costly. Since Soviet GLCM programs are still in the development stage, banning INF-range GLCMs now increases the cost and decreases the reliability of any Soviet program to develop a covert GLCM force. Moreover, without flight-testing, crew training and exercising with equipment, the operational capability of any covertly stored GLCMs would be seriously degraded over time. Conversely, the Soviet ability to maintain an operational nuclear GLCM capability under the guise of a permitted conventionally-armed GLCM program would be high and would provide the Soviets a ready means of breaking out from the Treaty.

Thus, the decision to ban conventionally-armed GLCMs reflected a considered USG judgment based on a number of factors including a military analysis.

CHINA

Our staff recently made a quick survey trip to China. While they haven't completed their report they have briefed us on their major findings. In addition to the staff trip in March, the Department also sent an FBO/Security team as well as Ambassador Salgo on similar trips.

Question. As happens elsewhere, the needs in China have been sacrificed to so-called larger foreign policy interests. For instance, in the recent agreement to allow the Chinese to proceed with their Consulate in Los Angeles, we did not get commensurate improvement in our facilities in China. Our most pressing need is a communication sky-link to relieve our dependence on land lines. We asked for that 14 years ago, we still don't have it and yet the Russians do. Why didn't the Department obtain an absolute approval for a sky-link before letting the Chinese proceed with Los Angeles?

Answer. The decision to permit the Chinese to open a Consulate in Los Angeles was first conveyed to them by Secretary Shultz in March, 1987. During the following year the US and China held several rounds of reciprocity talks. The installation and use of our Skylink communications system was a priority item on the US side during those negotiations. In February of this year, the Chinese agreed, in principle, to our installation and use of Skylink at our Embassy in Beijing. In March, the US allowed the Chinese to

proceed with the opening in Los Angeles. To have insisted on "absolute" approval of Skylink prior to permitting the Chinese to establish the Los Angeles Consulate would have been to ignore the progress which had been made during the reciprocity negotiations as well as other positive factors in the bilateral relationship.

We have already submitted the appropriate applications to the Chinese government, consistent with international practice, and we look forward to a speedy final approval of our new communications system.

Question: Since President Nixon resumed relations with China in February 1972 with the "Shanghai Communique" we have steadily increased State's staffing in China to the point where we now have 62 positions in Beijing and 42 at the Consulates in Chengdu, Guangzhou, Shanghai and Shenyang, plus other agency staffing. It is obvious that our staff has overrun the facilities in China. The Embassy is divided between 3 main buildings divided by a city street; the Consulate in Shanghai utilizes every nook and cranny of a large house that is also the CG's dwelling; and Guangzhou is another Moscow awaiting to explode. Certainly the $16,200,000 we appropriated several years ago is not adequate, but what is the Department's priority to providing the facilities we need in China?

Answer: It is true that our facilities in China, all of which are leased from the Chinese, are less than adequate. However, A/FBO has been focusing on a comprehensive approach to property issues at all China posts, most recently with the assistance of Ambassador Salgo.

Our main goal is to provide secure and comfortable facilities for our employees either through construction of our own facilities or through complete renovation of existing structures. We have received funding for site acquisition in Beijing, Shanghai, and Guangzhou. However, until we have negotiated a construction agreement with the Chinese, no property agreements will be settled.

In the interim, we are exploring options in Shanghai which may mean relocating the CG's residence off the compound to free up space for expansion of office operations. And in Guangzhou we are seeking alternative interim facilities in which to house both office and living quarters until such time as we can construct our own facilities.

Overall we are seeking to balance our existing requirements against those sought by the Chinese through the mechanism of ongoing reciprocity talks, with the goal of a comprehensive settlement of our requirements in China.

Question. There is an old saying that goes something like "for the want of a nail, the war was lost". Well in Beijing, for the want of a door, vital reporting is impaired. This is a door that the Embassy says has been on order if not on hand for quite sometime, but for

unexplainable reasons has not been delivered and installed in Beijing. Consequently, word processing is stymied. Can Somebody explain what is going on with this door?

Answer. The Peoples Republic of China places severe restrictions on the allowable size of Diplomatic Pouches that China will accept. The door was too large to be acceptable under these restrictions. Several efforts to arrange controlled shipment to China with post support were unsuccessful. The door and a motor-generator arrived in Beijing on Friday, May 13 aboard a USAF support flight. We were fortunate to find room for the material on this plane.

TEXTILES

Question: Mr. Secretary, the State Department is one of the five agencies comprising CITA, the Committee for the Implementation of Textile Agreements, which is responsible for administering our textile import control program. Since these imports are running $29 billion per year, I view this as an important responsibility. Can you tell us how the State Department plays its role as a CITA member?

Answer: The Department of State takes seriously its role in implementing our textile import restraint program. In recognition of the vital importance of this industry--our largest domestic industrial sector employing nearly two million workers--the State Department has a separate division within its Bureau of Economic and Business Affairs to work on this program.

State works with the other four agencies comprising the CITA to ensure that the U.S. textile and apparel import control program is administered effectively for the interest of all concerned parties. We participate in all aspects of the program, including deciding to consult with exporting countries, negotiating restraints, and signing bilateral agreements.

Within this process, one of State's roles is to draft and transmit official correspondence with foreign governments, including calls for consultations and the actual restraint agreements, ensuring that such actions are consistent with our international obligations under the Multi-Fiber Arrangement and our bilateral textile agreements. We prepare clear, concise agreement texts which ensure that our trade partners fully understand their responsibilities. This has been crucial to the success of the program. A prime example is language designed to force exporting governments to take stern measures to prevent fraud and transshipment.

Question: CITA has the sole power to make "calls"; that is, to request consultations with foreign countries when our textile imports from them threaten or even presume to threaten domestic producers. Mr. Secretary, textile imports from Nigeria, an OPEC member, shot up from less than a half million yards in 1986 to seventeen and a half million yards last year, and are still growing this year.

These imports are completely uncontrolled and CITA has not moved to control them. Is there some policy reason why Nigeria is getting a free ride into our market?

Answer: Recognizing the importance of its role in the inter-agency CITA, the State Department--along with the other agencies closely monitors imports from all foreign suppliers, especially those which are new to the U.S. market. Whenever we determine that exports of a particular product from a specific foreign supplier threaten to disrupt the U.S. market, we support requests to consult with foreign governments to set appropriate limits for these exports. There were about 40 such cases during 1987 alone.

I do not wish to comment too precisely on the specific case of Nigeria, which is more appropriately considered within the inter-agency CITA process. However, I note that out of the total of about 150 different products covered by the U.S. textile control program, Nigeria supplies just two: cotton sheeting and cotton printcloth. Both of these industries in the United States have just enjoyed banner years, and are experiencing capacity utilization topping 90 percent. Further, the recent increase in Nigerian textile exports to the United States still leaves Nigeria with only about one-tenth of one percent of total U.S. textile and apparel imports in quantity terms, and far less than that in value terms. One of the largest developing countries, with a population of more than 100 million, Nigeria nonetheless ranks only 50th in the list of our foreign textile suppliers.

Question: Some time back, you complained about being "sandbagged" by Turkish officials who linked the renewal of our military leases to our allowing Turkey to export more textiles and apparel to us. I see here that imports from Turkey were up 28 percent last year and 93 percent the year before that, so they've done rather well in our market. Now here's a newspaper article entitled, "Textiles: The Flagship of Turkey's Industry," in which a Turkish textile industry leader is quoted as saying Turkey intends to more than triple its textile and apparel exports. Does State Department policy with regard to Turkey allow for these kinds of annual increases to keep piling up?

Answer: The State Department supports the even-handed application of the textile restraint program towards Turkey. This program restrains imports of textile and apparel products which disrupt or threaten to disrupt the U.S. market. Over the past year, the United States has consulted with the Government of Turkey to restrain imports of four separate products where such disruption was threatened: cotton and man-made fiber skirts, men's and boys' cotton trousers, cotton playsuits, and cotton knit shirts. In these talks, the U.S. negotiators have adopted fair but tough stances. Restraints on these categories of imports supplement quotas on about 20 other sensitive imports from Turkey. Negotiations are now underway to renew for several more years these restraints, many of which expire at the end of June.

You cited accurate import statistics for Turkey for 1986

and 1987. But you may also be interested to know that the latest Department of Commerce statistics show that imports from Turkey in the first two months of 1988 have actually fallen by 22 percent compared to imports in the same period of 1987.

AUSTERITY PROGRAM

Last September 24th, I met with Deputy Secretary Whitehead and we discussed the shortfall of $84,000,000 that the Department was facing for Fiscal Year 1988. Mr. Whitehead outlined a plan to consolidate offices, reduce the number of Deputy Assistant Secretaries, eliminate overlapping and duplicative activities, a well as other steps to reduce the shortfall.

I indicated to Mr. Whitehead my wholehearted cooperation as my recent travels overseas have found our Ambassadors hard pressed to represent the United States. Meanwhile, we have added a thousand people in Foggy Bottom and we have 110 Deputy Assistant Secretaries.

The Budget Summit provided relief to the Department and apparently the austerity campaign is over. However, we are advised by Mr. Feldman that the Department now projects a shortfall in 1989 of $102,000,000.

Question. Mr. Secretary, why does your basic budget say that you can continue your 1988 level in 1989 with only $56,325,000 in built-in changes when you know you need $102,000,000 more to maintain current levels?

Answer. The Department's 1989 request is in accordance with the November 1987 Budget Summit Agreement. As a result, many increases, both program and mandatory, could not be accomodated within the 1989 submission. The exact magnitude of our problem in 1989 will depend on the amount Congress appropriates, overseas economic conditions and the value of the dollar in relation to other foreign currencies.

The $102 million that you refer to is the total increase over the 1988 CR level that under ideal conditions would allow for the full funding of mandatory increases and exchange rate losses in both the Regular and Diplomatic Security programs; initial construction costs for the new National Foreign Affairs Training Center; replacement of FSNs in Eastern European posts; and the funding of modest program growth in such important areas as information management systems.

Question: Is last year's austerity program all forgotten; for instance, what about those 110 Deputy Assistant Secretaries?

Answer: The Steering Group has eliminated ten percent of the Deputy Assistant Secretary positions in the Department. These positions are scheduled to be off the books by September 30 of this year.

Question: The Budget Summit levels are about the firmest things in Washington right now. No friendly editorials in

the Post or Times are going to help State this year. When are we going to get going on streamlining the Department?

Answer: The Steering Group, chaired by the Deputy Secretary and including the Under Secretary for Management, the Under Secretary for Political Affairs, and the Department's Executive Secretary, is concentrating its efforts on preparing the Department for the fiscal realities of FY 1989 and beyond. The emphasis is twofold: eliminate needless overlap and duplication, and cut expenditures selectively according to foreign policy priorities. We anticipate that the majority of the initiatives described below will be carried out by the end of the present fiscal year.

Organizational Reform and Streamlining

- A systematic and comprehensive examination of the number of deputy assistant secretary and equivalent positions in the Department has resulted in a 10% reduction.

- Reviews of the Department's economic, public affairs, and legislative functions are nearly complete, and will result in office mergers and position eliminations.

- We are engaged in a Department-wide review of ways to improve the delivery of administrative services (management, personnel, finance, operations, information) in Washington and at posts overseas. The proposals that will emerge from this study will be aimed at increasing efficiency and saving money.

- Under Secretary for Management Spiers has launched a Department-wide study of office and bureau structure. This is likely to result in office mergers, less bureaucratic layering, the elimination of positions, and attendent savings.

POSTS OVERSEAS

Question. In 1986 the Department closed 7 posts including Bremen, Nice, Rotterdam and Winnipeg. In 1987 the Department informed the Congress of plans to close 7 additional posts as follows:

Dusseldorf	Goteborg
Maracaibo	Salzburg
Strasbourg	Tangier
Turin	

The 6 posts closed in 1986 save us $3,452,000 a year and the 7 additional post closings announced last year would save us an additional $2,970,000 annually.

Mr. Secretary, am I correct that the Department has reconsidered Strasbourg and no longer intends to close that post?

Answer. Yes, the Department has reconsidered its 1987 decision to close Strasbourg, and has decided not to close this post.

Question. In a letter to me last October 1st, Mr. Whitehead indicated that additional post closings were under consideration for 1988. Bordeaux was on that list and I know that is of much concern to our former Chairman, Senator Laxalt. How do we stand on Bordeaux?

Answer. The Department has no current plans to close the U.S. Consulate in Bordeaux.

Question. What about Dusseldorf? As you know that is the heart of the thriving part of Germany and the center of their market. The Department apparently thinks that we can take care of Dusseldorf from Bonn, but in reality, Dusseldorf is as far from Bonn, as New York is from Washington. Have you reconsidered Dusseldorf?

Answer. The Department has not revised its plans to close the U.S. Consulate in Dusseldorf. With regard to the commercial importance of Dusseldorf, it will be of interest to the Committee that the U.S. Department of Commerce maintains a Foreign Commercial Service post in that city.

Question. How come I never see our post at the Vatican on any of these lists? Last year's austerity program included dually-accrediting our Ambassador to Rome to both Italy and the UN agencies for Food and Agriculture. Why can't he also be accredited to the Vatican?

Answer. The Department believes that the political requirements met by establishing a U.S. Embassy to the Vatican would not be satisfied by the dual-accredition of the U.S. Ambassador to Italy. We do, however, seek to minimize duplicative administrative operations to the extent possible. Recent reports by the Office of the Inspector General have also suggested ways in which even greater savings might be achieved in this regard, and the Department is currently studying those recommendations.

Question: Mr. Secretary, instead of closing posts we should be closing offices in Foggy Bottom. Where is the commensurate savings in Main State to match the reductions you are extracting overseas? The Department of State exists to represent the United States overseas, not to build empires in Washington. Shouldn't we have at least a dollar for dollar offset at home for each post closed overseas?

Answer: We must preserve the essential work of the Department overseas and economize in the domestic structure. Domestic savings from the Steering Group's efforts to date are projected to be over $20 million, and

more than 50 funded positions, during the next fiscal year. Further savings in Washington will accrue from consolidation efforts now underway.

POLYGRAPHING OF DIPLOMATIC SECURITY PERSONNEL

Question. With regard to the polygraphing of diplomatic security personnel, when the President signed the Foreign Relations Authorization Bill on December 22, 1987 he made a statement that he was "interpreting this requirement consistent with my position concerning the discretion of agency heads to determine when polygraph examinations will be conducted in specific cases." Since that was just a few hours after we were hearing from Assistant Secretary Fox and others about your strong personal objections, can you tell us when the Administration arrived at this position that there was a way out? In other words, was the Department crying "wolf"?

Answer. The Department's serious concerns were only alleviated by the Administration's finding, after further review in late December, that the statute did not override the discretion of agency heads bestowed by the President in this area. As Secretary Shultz explained, the Department is currently developing regulations for a polygraph program which will meet the statutory requirements.

FOREIGN SERVICE INSTITUTE

The largest program increase in the Department of State's budget for 1989 is $30,000,000 to begin construction of the National Foreign Affairs Training Center at Arlington Hall. This is the first time funds have been budgeted for a permenent home for the Foreign Service Institute, as authorized by Public Law 99-93. Last year, we approved a reprogramming of $4,000,000 for architectural and engineering work.

Question: The justifications indicate that the total cost of the FSI facility will be $73,000,000. However, the authorization is only $61,000,000. Please explain the difference in the total cost and the amount authorized.

Answer: In August 1985, P.L. 99-93 authorized $61 million for the design and construction of new Foreign Service Institute facilities. Since that time the training requirements of the Bureau of Diplomatic Security have become clearer and a decision has been made to accommodate those needs in the FSI facility rather than building a separate Security Training Center as originally included in the Diplomatic Security Program. The difference of $12 million between the $61 million authorized for the FSI facility and the $73 million requested for the National Foreign Affairs Training Center is to fund the inclusion of DS facilities within the Center.

In 1987 the Congress approved the reprogramming of appropriations to fund architectural and engineering studies.

$1 million of DS S&E funds and $3 million of regular S&E funds were obligated for those studies.

The remaining $11 million in funding will come from the Diplomatic Security Program. The Department plans to reprogram $5 million which was authorized and appropriated in 1986. The Department plans to request authorization and appropriation of the remaining $6 million in 1990 and is reviewing whether section 123 of the 1986-87 authorization act will need to be amended to accomplish the expanded project.

Question. Does the $30,000,000 requested for 1989 start a $61 or $73,000,000 project?

Answer. The $30,000,000 would start a $73,000,000 project, $4 million of which has already been obligated for architectural and engineering work.

Question. Will the $30,000,000 be committed to a discrete project so we won't end up with unfinished buildings if circumstances prevent us from providing follow-on funding?

Answer. No this is not a discrete project. The $30 million will be used to remove asbestos and PCBs, to demolish the many existing structures where appropriate, to prepare the site for work and bring utilities to the site as needed, do site roadwork and to start construction of the building substructures.

Question. According to the justifications, the Department will save $41,000,000 over the next 30 years in rental payments by building the FSI. Can you substantiate that for the record?

Answer. Yes. In 1987 GSA performed a Present Value Analysis (submitted to sub-committee staff in September 1987) of lease versus construction costs. The lease alternative has a 30 year present value cost of $153,971,000. The construction alternative has a 30 year present value cost of $112,818,000. The construction alternative has a 30 year saving of $41,153,000 in 1987 dollars.

This savings included the imputed costs of the land and State and Local taxes. These are costs which will not be paid but would be paid in the lease scenario. If these imputed costs are removed, the 30 year present value savings for construction are $61,313,000.

A copy of the GSA Present Value Analysis is attached.

Question. The justification gives us the feeling that this will be some kind of gold-plated facility. For instance, we read: Much adult learning can best be accomplished in small classes of up to six students where students closely interact among themselves with a teacher and appropriate equipment.

What kind of specialized classes are envisioned as we haven't had classes of 6 since Socrates and Aristotle?

Answer. For many years, the Foreign Service Institute's School of Language Services has taught languages in

classes of not more than 6 students. Such classes group students according to knowledge, ability and facility with each language. More importantly, they allow students maximum participation in the practice of language skills.

Modern American corporate training experience indicates that most adult learning is best accomplished in experiential environments, using work related or problem-solving groups. Often this involves small sub-groups of up to six students interacting among themselves and with a teacher and appropriate audio, video and computer equipment.

Question. Similarly, the justifications mention the need to eliminate hallway waits for elevators and walks to conference rooms and libraries. Certainly we want something better than Rosslyn, but this sounds better than Harvard or Oxford. Why does this have to be a "special adult-learning place" instead of just a training center?

Answer. The new facility will not be better than Harvard or Oxford, it will be a lean training center specifically designed to teach job-related skills to adults. Contemporary experience, especially in the business world, has shown that teaching of job-related skills to adults cannot be done effectively in traditional classroom settings. Space for adult education needs to be organized so that related functions are placed adjacent to one another.

Similar facilities already exist at the military war colleges, the FBI center at Quantico, the Federal Law Enforcement Center at Glencoe, Georgia and the Xerox Center in Loudoun County, Virginia. Such centers concentrate students' attention and result in more effective training.

Question. The Department has a definite disdain for using abandoned school buildings for the FSI.

A) Is that because someone is hell-bent on having a monument constructed?

B) A few years back, we established the Fire Academy of the Federal Emergency Management Agency at the former Mount St. Joseph's College at Emmittsburg, Maryland. We got a beautiful facility at the cost of $3,514,000. Before deciding on locating the FSI at Arlington Hall how hard did the Department look for another Mount St. Joseph's for the FSI?

C) This area, particularly, the close-in suburbs has abandoned elementary and junior high schools. How many of them did the Department look at?

D) Please list what abandoned schools the Department actually examined and the cost of occupying an abandoned school vs. new construction?

Answer. A) The only monument the Department of State wishes to construct is a well-trained professional core of individuals to represent our country abroad. We believe

that goal can be most easily accomplished by designing and building an adult learning center.

B) In 1984, the GSA developed a list of federally owned properties with potential for the FSI site. GSA and the Department seriously considered six locations, one of which was the Arlington Hall site. The other locations were (1) Southeast Federal Center at 1st and M, SE; (2) Temporaries A&B, 2nd & Q Streets, S.W. abutting Fort McNair; (3) Potomac Annexes; (4) Arlington Hall; (5) Pentagon Complex north of North Parking Lot & Old Sewage Treatment Plant; and (6) Forest Glen Section Walter Reed Army Medical Center, Old National Park Seminary, I-495 & Georgia Avenue.

C) The Department and the GSA did not look at abandoned elementary and junior high schools since these are not configured for adult education and were not already owned Federal properties.

D) The Department looked at two federally owned properties that had at one time been girls' schools of one sort or another--the Arlington Hall site which began as a girls' college and the Forest Glen Section of the Walter Reed Army Medical Center which had been a finishing school for girls.

It would have been impractical to specifically look at abandoned schools since the Department requires approximately 430,000 net square feet of space configurable to provide approximately 200 classrooms of varying dimensions.

Question. Please provide for the record:

A) A display of the existing buildings at Arlington Hall and what use is expected to be made of them.

B) A display of the new buildings to be constructed.

C) A summary of the project total cost of $73,000,000.

Answer. A) Attached are two maps of the site. The first map indicates the portion of the site that will be utilized by the National Guard (15 acres) and the portion which will be designated for use by the National Foreign Affairs Training Center (71.56 acres).

On the second map, the buildings in black existed as part of the Arlington Hall Junior College 1927-1942. All other buildings are World War II temporary office buildings or barracks in poor condition with asbestos and PCB problems. The temporary structures will have to be demolished soon after the Army Intelligence Command vacates the site in the fall of 1989.

B) A display of the new buildings is not yet available as the architects are currently in the programming stage.

C) Attached.

Site Boundaries

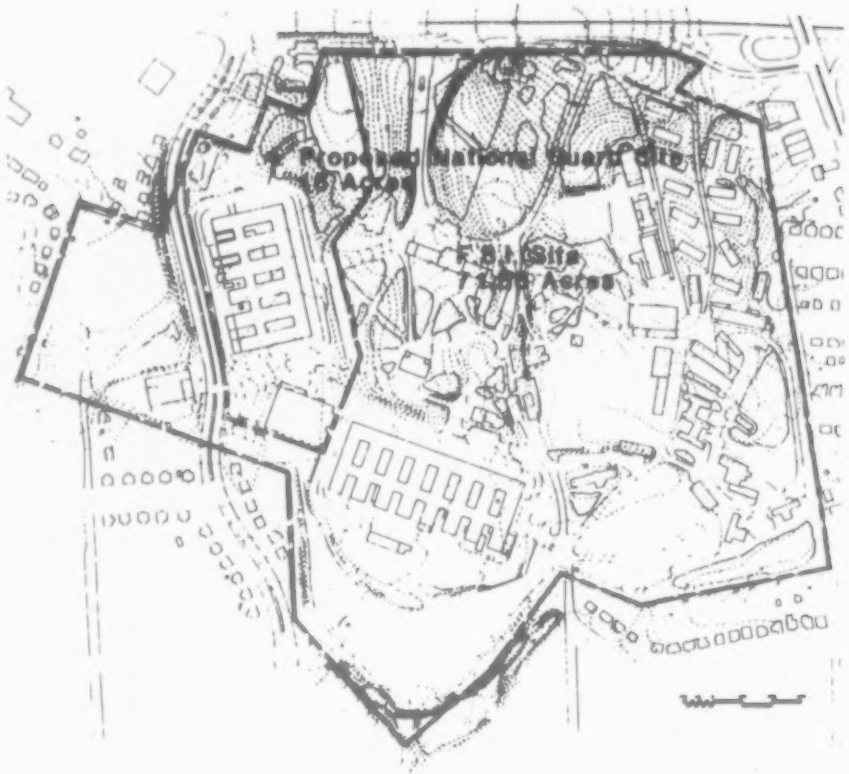
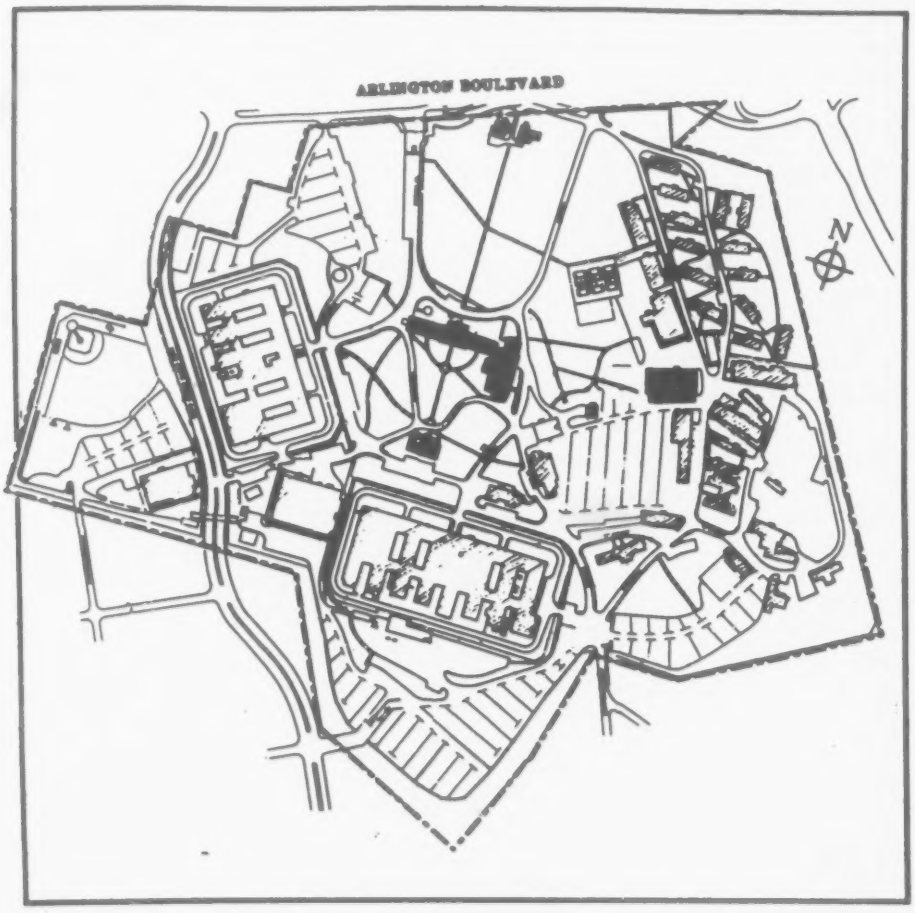


Exhibit 2



Current site plan of Arlington Hall Station

Arlington Hall Junior College Buildings 1964-1969

Post 1942 Buildings

BROWNE, EICHMAN, DALGLIESH, GILPIN & PAXTON, P.C.

Foreign Service Institute
and
Diplomatic Security Training Center

Arlington Hall

Estimated Site Cost (ESC)	
Land Cost	0
Appraisal, Legal Fees, Etc.	0
Survey	100,000
Demolition, Site Preparation	5,900,000
Total Estimated Site Cost	6,000,000
Estimated Design and Review Cost (EDRC)	
Architect-Engineer Fee	3,942,000
GSA Review Cost	962,000
Survey And Tests	52,000
Reproduction	36,000
Invitation and Bid Expense	4,000
Travel	4,000
Total Estimated Design and Review Cost	5,000,000
Estimated Construction Cost (ECC)	
Current Estimate Contract Amount	50,000,000
Escalation to 12%	6,000,000
Contingencies 7%	3,900,000
Reservations (Arts in Arch.) 0.5%	300,000
Total Estimated Construction Cost	60,200,000
Estimated Management and Inspection Cost (EMIC)	
Contract Management and Inspection Cost	1,750,000
Material Testing	43,000
Travel	7,000
Total Estimated Management and Inspection Cost	1,800,000
ESTIMATED TOTAL PROJECT COST (ETPC)	73,000,000

United States Department of State

Washington, D.C. 20520

NATIONAL TRAINING CENTER FOR FOREIGN AFFAIRS

PRESENT VALUE ANALYSIS

ARLINGTON HALL STATION

Introduction

The Department of State was authorized the transfer, from the Army, 72 acres of land to construct a facility to house the Foreign Service Institute and our Diplomatic Security Training Center. The consolidation of the Department of State's training is known as the National Training Center for Foreign Affairs.

Initial program work was performed to initiate a design competition and select and Architecture and Engineering team to design the facility. Based on that effort, we concluded the net size of the facility and a budget estimate for construction. We anticipate the total project costs to be $73,000,000.

This present value study is intended to show the cost differences between the lease option and the build option for the facility.

Assumptions

This present value study was performed using the GSA model and complies with the standards under OMB circular A-104 for comparing the total costs to the U.S. Government. We assumed that the present arrangements were totally unacceptable and that the National Training Center for Foreign Affairs would have to lease or build the total program space identified in the design competition regardless of which option was selected. The following assumptions were used in the analysis:

1. That even though there are no land costs, the imputed value of the land of $10,000,000 was used in the construction estimate.

2. We assumed an optimistic lease rate of $22.30 per occupiable square foot. The Virginia avenue rates are $31 and new space in Arlington ranges $24 to $28 per net usable square foot. The lease rate could easily be more expensive.

3. The Treasury discount rate of 8% was used with FFB lending at 8.13%. The private secture rate was an optimistic 10% based on a U.S. Government guarantee.

4. While the taxes and insurance are defined in the lease option, we also included a category in the construction even though the U.S. Government is exempt from taxes and insurance. This imputed cost will not have to be paid to the county.

5. The analysis assumed that management costs for an owned

building would be higher than for a leased building. We used the cost of $0.16 per OSF for lease and $0.32 for owned.

6. A general inflation rate of 4% was used for both options.

7. Major repair and alterations work was considerably less in the lease option than the owned ($0.50 per OSF in the lease and $1.53 per OSF in the owned). This reflects the building's owners must repair major systems under the lease.

8. The lease option includes the costs to the U.S. Government for monies lost to the Treasury due to depreciation and tax credits. We used the lower rate of 28% for corporate bracket.

9. The analysis anticipates higher operations and maintanence costs for the owned building due to the amount of site area to maintain.

10. We used 360,000 occupiable square feet in the construction option and only 344,000 occupiable square feet in the lease option. This assumes that some common space such as cafeteria might not be needed in a leased building. This is a very conservative estimate.

11. Both options used an interim housing cost of $5,145,000 and that both anticipated occupancy in 4 years.

12. The estimate includes $1,500,000 for furniture and fixtures in the move as well as an economic life of 12 years and depreciation of 7 years for the F&F.

NATIONAL TRAINING CENTER FOR FOREIGN AFFAIRS

PRESENT VALUE ANALYSIS

ARLINGTON HALL STATION

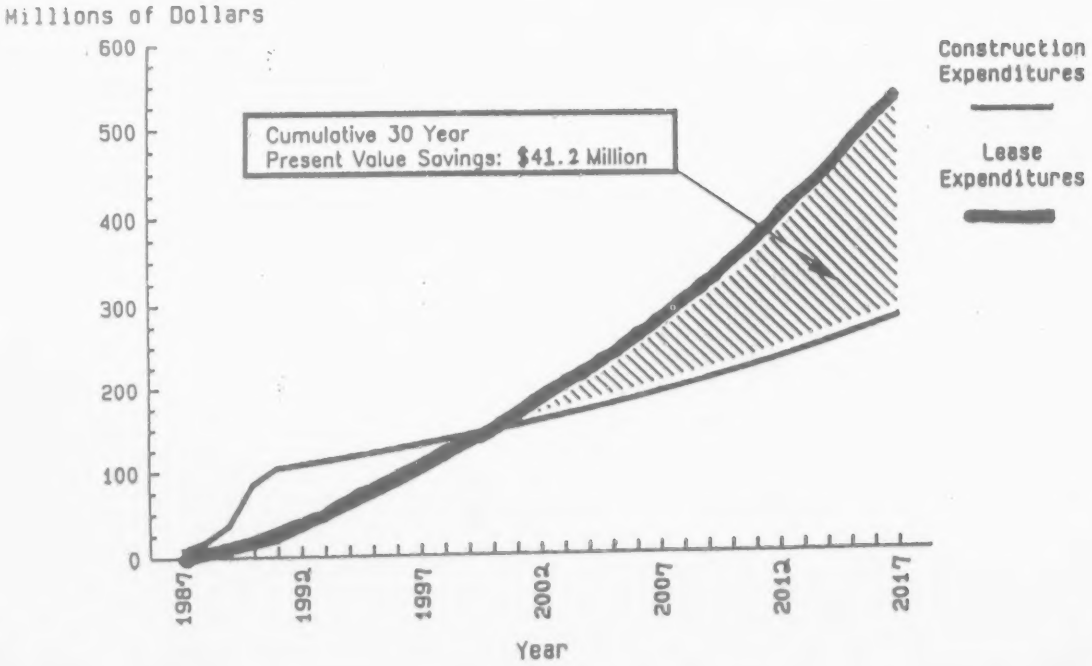
Summary of Results

The lease alternative has a 30 year present value cost of $153,971,000. The construction alternative has a 30 year present value cost of $112,818,000. The construction alternative has a 30 year saving of $41,153,000 in 1987 dollars. This savings included the imputed costs of the land and State and Local taxes. These are costs which will not be paid but would be paid in the lease scenario. If these imputed costs are removed, the 30 year present value savings for construction is $61,313,000.

The building is planned for occupancy in 1992 which is when the first lease escalation is to occur. Under the A-104 review, the graph on cumulative expenditures shows a savings beginning in the year 2000 or only eight years after occupancy.

THE FOREIGN SERVICE INSTITUTE

LEASE vs. CONSTRUCTION
CUMULATIVE EXPENDITURES



PRESENT VALUE STUDY

NATIONAL TRAINING CENTER FOR FOREIGN AFFAIRS

LEASE ALTERNATIVE

Occupiable Square Feet:	344,000
Gross Square Feet:	430,000

Government-leased Expenses (today's dollars)

Net Net rent per OSF	22.30
Taxes & Insurance per OSF	2.10
Major R&A per OSF	0.50
Net Rent per OSF	24.90
Operating Expenses per OSF	5.00
Management Costs per OSF	0.16
Maintenance & Tenant Alternations per OSF	0.50
Total Annual Cost per OSF	30.79
Inflation rate per year (%)	4.00
Average lease term in years	5.00

Note: The Net Net rent is assumed to compound at the annual inflation rate, but is adjusted only upon the anniversary of each lease period. All other expenses are compounded and adjusted every year.

LEASE ALTERNATIVE

ECONOMIC ANALYSIS SUMMARY

(in 000's)

Present Values	10 yrs	20 yrs	30 yrs
1. Interim Housing	18,023	18,023	18,023
2. Net Net Rent	31,395	69,671	95,914
3. Major R&A	749	1,676	2,312
4. Maint. & Ten. Alt.	1,094	2,447	3,375
5. Services & Util.	7,492	16,761	23,115
6. Taxes and Ins.	3,147	7,039	9,708
7. Management	240	536	740
8. Gross Rent	62,140	116,153	153,187
9. Scheduled Depreciation	4,151	7,734	9,471
10. Less Econ. Depreciation	3,101	6,009	7,456
11. Accel. Depreciation	1,050	1,724	2,015
12. Tax Savings 28%	408	671	748
13. Plus Tax Credits	0	0	0
14 Total Tax Benefits	408	671	784
15. Present Value Cost	62,548	116,824	153,971

PRESENT VALUE STUDY

NATIONAL TRAINING CENTER FOR FOREIGN AFFAIRS

CONSTRUCTION ALTERNATIVE

Occupiable Square Feet:	360,000
Gross Square Feet:	450,000

Government-Owned Expenses (today's dollars)	
Taxes & Insurance per OSF	2.10
Major R&A per OSF	1.43
Management Costs per OSF	0.32
Operating Expenses per OSF	5.50
Maintenance & Tenant Alternations per OSF	0.73
Total Annual Cost per OSF	$10.08

NEW CONSTRUCTION COSTS

	Present Value	Today's Value	Nominal Value
Construction Cost	$52,569,464	$63,600,000	$66,143,996
Design & Review Cost	4,629,630	5,000,000	5,000,000
Management & Inspec.	1,487,815	1,800,000	1,872,000
Est. Building Cost	$58,686,909	$70,400,000	$73,015,996
Est. Land Cost	10,000,000	10,000,000	10,000,000
Est. Total Project	$68,686,909	$80,400,000	$83,015,996
Const. Cost per OSF	$146.03	$176.67	$183.73
Const. Cost per GSF	$116.82	$141.33	$146.99

Construction-Period Interest:

Treasury Financed:	$9,959,184	at	8.000%
FFB Financed:	$10,121,200	at	8.125%
Private Sector:	$12,575,856	at	10.000%

Estimated Market Value at Occupancy

Building:	$73,015,992		
Land:	11,698,585		
Const. Interest	12,575,856	at	10.000%
Est. Market Value	$97,290,433		

CONSTRUCTION ALTERNATIVE

ECONOMIC ANALYSIS SUMMARY

Present Values	10 yrs	20 yrs	30 yrs
1. Interim Housing	18,023	18,023	18,023
2. Const. Cost	52,569	52,569	52,569
3. Design Cost	4,630	4,630	4,630
4. Mgt. & Inspection	1,488	1,488	1,488
5. Land	10,000	10,000	10,000
6. Outlease Income	0	0	0
7. Major R&A	2,242	5,016	6,918
8. Maint. & Ten. Alt.	1,145	2,561	3,532
9. Services & Utilities	8,625	19,294	26,609
10. Taxes & Insurance	3,293	7,367	10,160
11. Management	502	1,123	1,548
12. Total Annual Cost	102,517	122,070	135,477
13. Disc. Bldg Revers.	-47,975	-30,535	-19,436
14. Disc. Land Revers.	- 6,856	- 4,701	- 3,223
15. Present Value Cost	$ 47,686	$ 86,834	$112,818

GENERAL SERVICES ADMINISTRATION/PUBLIC BUILDINGS SERVICE
OFFICE OF FACILITIES PLANNING

THE AUTOMATED PROSPECTUS SYSTEM

CHAPTER A: INTRODUCTION

I. BACKGROUND

Up to June 1, 1986, the analysis of real property lease vs. buy decisions on the part of any agency of the Government had to be conducted in accordance with the provisions of OMB Directive A-104, as originally published in 1972. This directive was developed during early 1970's and quantified the prevailing approach that all agencies of the Government were to use for long-term project decision making. To its credit, the A-104 approach, in the main, reflected the manner in which real estate decision making was conducted by the private sector at that time.

While the use of A-104 may have yielded the appropriate decision as to lease or buy within the scope of real estate alternatives permitted the Government in the past, it was recognized that there were major shortcomings inherent in this approach when applied to modern-day, market-place realities.

This situation arose because of the fact that the early 1970's were characterized by a period of comparatively low inflation in building values, low rates of interest, static tax laws, and, perhaps most important of all, a nationwide real estate marketplace that was both stable and uniform in nature.

In particular, to standardize its application to real estate analysis, the A-104 directive called for the following restrictive assumptions:

o All capital outlays for construction, repair & alteration, or acquisition, as well as all expenditures for ongoing lease payments and operating costs, had to be expressed in constant dollars; that is, in terms of what these outlays or expenditures would be in the absence of inflation.

o The discount rate used was mandated as being 7 per cent per annum under any and all circumstances.

o The residual value after any period of time had to be estimated in terms of constant dollars by taking the starting value of the land and inflating it at 1.5 per cent per year, then taking the starting value of the improvements and deflating it at 1.7 per cent per year, and then combining the results. In particular, no account was made for the systematic replacement of major building systems which would permit the building to maintain a substantial portion of its original value in constant dollar terms after 30 years or more.

o The effect of tax expenditures given up by Treasury as a result of depreciation benefits and investment tax credits was completely ignored.

As a result of these restrictions, the 1972 version of directive A-104 did not permit the decision maker to take into account the fact that a particular

building and site might have the potential to sharply increase in value over time because of locational specific factors or other advantageous conditions.

All this changed suddenly on June 1, 1986. Recognizing the fact that interest and inflation rates do fluctuate, that tax effects can be significant, and values are often influenced by local factors, OMB issued a revision to A-104 that almost complete reversed the philosophy contained in the original directive.

The new A-104 directive called for the following procedural changes, among others:

o All capital outlays for construction, repair and alteration or acquisition, as well as all expenditures for ongoing lease payments and operating costs are now to be expressed in current dollars; that is, in terms of what these outlays or expenditures would be in future dollars, including the effects of inflation.

o The discount rate used is to reflect the appropriate, current long-term Treasury rate.

o The residual value after any period of time is to reflect a market approach to value, either based upon actual experience with similar properties, or based upon reasonable projections of income, expenses and property values. In particular, this would permit value to reflect and be consistent with the level and extent of the major repair and alteration resources utilized in the systematic maintenance of the building.

o The effect of tax expenditures given up by Treasury as a result of accelerated depreciation benefits and various tax credits is to be fully accounted for.

In addition to the above changes introduced by the revised A-104 directive, new requirements are being imposed upon analysts and planners through the increased emphasis on the Government's Building Purchase Program. As a result, it becomes of extreme importance to have an analytic tool which can help assist in the development of effective negotiation strategies for acquisitions, or, in those situations wherein leasing is the preferred alternative, for the negotiation for the best lease terms possible.

It was in response to these needs that The Automated Prospectus System [TAPS] model is being developed. In particular, TAPS has been designed with four primary goals in mind:

(1) To provide the planner with the appropriate computer tools with which to analyze potential real estate projects, including the ability to pose numerous "What If?" questions in a rapid and efficient manner;

(2) To provide the planner with the means to generate the required economic analysis reports in accordance with OMB Directive A-104 more quickly and effectively than before;

(3) To provide the planner with the means for developing appropriate negotiating strategies for purchase, or for the best lease terms when leasing is the preferred alternative; and

GENERAL SERVICES ADMINISTRATION/PUBLIC BUILDINGS SERVICE
OFFICE OF FACILITIES PLANNING

THE AUTOMATED PROSPECTUS SYSTEM

CHAPTER C: DISCOUNTED CASH FLOW & PRESENT VALUE THEORY

I. INTRODUCTION

This chapter of the User's Guide develops a general overview of the theory underlying the discounted cash flow and present value techniques utilized by the TAPS model. No mathematical ability beyond that needed to understand the compound interest formula will be needed or assumed.

II. THE TIME VALUE OF MONEY

To understand how TAPS works, it is necessary to distinguish between the

costs of building ownership or rental as expressed in today's dollars, future dollars, and present value. To do this, let us first review the mathematical concept of compound interest.

The Compound Interest Formula

Suppose you were to open a bank account paying 6 per cent interest on January 1, 1990, with a deposit of $1,000. This being an old-fashioned bank, let us suppose that the interest is credited annually every December 31st. Let us compute how much will you have in the account four years later on December 31, 1993.

The first step in the process is to convert the annual interest rate in percentage form to its decimal equivalent. This is accomplished by dividing 6 per cent by the number 100, to arrive at the figure .06 as the decimal equivalent.

The interest credited on December 31, 1990, will be the initial $1,000 multiplied by .06, or $60, so the total balance in our account as of that date will be $1,000 + $60, or $1,060. A little reflection shows that a useful shortcut to this answer is obtained by simply multiplying the initial amount of $1,000 by the number 1.06 (the 1 brings over the starting balance, and the .06 accounts for the interest). One year later, on December 31, 1991, the interest credited to the account will not be another $60, but rather $1,060 times .06, or $63.60; this is a direct result of the fact that in this case the interest is calculated on the current account balance, not on the original deposit.

The account balance on December 31, 1991, is therefore $1,060 + $63.60, or $1,123.60. A little reflection shows that a useful shortcut to this answer is obtained by simply multiplying the initial amount of $1,000 by the number 1.06, and then again by the number 1.06. That is, $1,000 x 1.06 x 1.06 = $1,123.60. Without belaboring the point any further, on December 31, 1993, the account balance will be $1,000 x 1.06 x 1.06 x 1.06 x 1.06, or $1,262.48.

Because of this way of calculating interest on interest every year, we

say the bank is compounding the interest annually, and we speak of the shortcut procedure as the compound interest formula. As another way of shortening the descriptive formula, we write

$$\$1{,}000 \times 1.06 \times 1.06 \times 1.06 \times 1.06 = \$1{,}000 \times (1.06)^4$$

The expression 1.06^4 is read as 1.06 to the fourth power, and is really nothing more than an abbreviation for the repeated multiplication as shown on the left side of the above equation. In its most general form, we write:

$$\text{Future Balance} = \text{Initial Deposit} * (1 + \text{Interest Rate}/100)^N$$

where N is the number of years involved. The above formula lies at the heart of almost everything we do in the quantitative real estate analysis and, in particular, life-cycle costing.

A Simple Example

Let us now introduce the concepts of Today's Value, Future Value and the Present Value of an investment. But let's not complicate the issue by applying these concepts to real estate yet.

Whether we're in real estate or not, most of us own cars, and a simple example of these concepts can be drawn from the following everyday experience: suppose that an automobile we would eventually like to purchase costs $16,000 if we walked into the showroom right now. Because of this, the $16,000 is termed the cost in today's dollars. On the other hand,

if automobile prices were increasing at 5 per cent per year and our present car (jalopy?) had four more years of life to it, the price we would have to pay at that time would be almost 21.6 per cent higher, because of the compound interest effect at work; that is, 1.05 raised to the fourth power is 1.2155, and $16,000 x 1.2155 is $19,448 (we can safely ignore the pennies and round to the nearest dollar here). In mathematical terms:

$$\$16,000 \times 1.05 \times 1.05 \times 1.05 \times 1.05 = \$16,000 \times (1.05)^4 = \$19,448$$

Naturally enough, the price of $19,448 that we would have to pay in four years is called the cost in <u>future dollars</u>.

In order to come up with that sum in four years, suppose we opened up an account in a high-yield bond fund paying 10 per cent interest per year. A deposit of $13,283 placed in this fund right now would grow to be $19,448 after precisely four years, because 1.10 raised to the fourth power is 1.4641, and $13,283 x 1.4641 is $19,448. In mathematical terms:

$$\$13,283 \times 1.10 \times 1.10 \times 1.10 \times 1.10 = \$13,283 \times (1.10)^4 = \$19,448$$

The amount of $13,283 is called the <u>present value</u> of the asset. The question that immediately comes to mind is how did we know how to actually calculate this figure? We did this by starting with the future value of $19,448 and working backwards:

$$\$19,448 / (1.10 \times 1.10 \times 1.10 \times 1.10) = \$19,448 / (1.10)^4 = \$13,283$$

PRESENT VALUE THEORY

When working this procedure backwards, the process is referred to as "discounting," and the investment rate of 10 per cent used to determine the size of the initial deposit (= present value) is called the <u>discount rate</u>. In terms of the compound interest formula, the basic relationships developed so far can be expressed as follows:

$$\text{Future Cost} = \text{Today's Cost} \times (1 + \text{Inflation Rate}/100)^N$$

$$\text{Present Value} = \text{Future Cost} / (1 + \text{Discount Rate}/100)^N$$

where N is the time span in years involved.

The procedure developed carries over directly when it is real estate we are concerned with. As a simple example of this, suppose that some agency or other user needed 1,000 square feet of space in four years, and that leased space is commanding $16 per square foot per year today. Then the cost of a year's rental in <u>today's dollars</u> is $16,000. With prices increasing at 5 per cent a year, the cost in <u>future dollars</u> of the first year's occupancy will be $19,448, and the <u>present value</u> of this amount at a 10 per cent discount rate is $13,283.

III. AN INTRODUCTION TO LIFE-CYCLE ECONOMICS

What made the above example so simple to analyze was the fact that the cost incurred was confined to that of a single year. In actual practice, real estate decisions must be based upon the costs incurred over the entire term of a multi-year lease and then compared to what the comparable costs of ownership might be over the same time period. Because of this, we must introduce notation that will make it easy for us to distinguish exactly which year we are talking about at any given moment. The notation that is commonly used in analysis is that of <u>subscripts</u>; that is, we denote the cost in future dollars incurred in the first year of the lease by Future $Cost_1$; that in the second year by Future $Cost_2$; etc.

With this notation, it is possible to write down the following formula for the present value of a multi-year cost stream:

$$\text{Present Value} = \text{Future Cost}_1 / (1 + \text{Discount Rate}/100)^{N}$$
$$+ \text{Future Cost}_2 / (1 + \text{Discount Rate}/100)^{N+1}$$
$$+ \text{Future Cost}_3 / (1 + \text{Discount Rate}/100)^{N+2}$$
$$+ \ldots$$
$$+ \text{Future Cost}_M / (1 + \text{Discount Rate}/100)^{N+M-1}$$

Each subscript in the above formula refers to the cost for that year, and ranges from 1 to M, where M is the number of years involved. The parameter N reflects the number of years from today to when the first of the annual costs are incurred.

The above formula is fine for costs which occur just once a year, every year. In the field of real estate, however, costs are incurred not just once a year but almost continuously throughout the year; lease payments and utility bills

are, for example, ordinarily paid monthly not annually. As a result, the formula above must be modified to reflect this. One way to do this is to place the methodology on a monthly basis. This is what lenders do in order to calculate the present value of a mortgage, but such detail is usually unwarranted when it comes to decision making in real estate, for the reason that the data is usually not accurate enough to justify such an approach.

What is ordinarily done instead is to adopt either "mid-year" or "end-of-year" discounting. For example, suppose the cost of that first year's lease payment of $19,448 is made in 12 equal payments throughout the year. On average, the full payment of $19,448 is therefore made halfway through the year, and under a mid-year discounting convention, the corresponding present value of the first year's lease payment, for a lease commencing 4 years from today and a discount rate of 10 per cent, would be calculated as:

$$\text{Present Value} = \$19{,}448 / (1.10)^{4.5} = \$12{,}665$$

Dealing with square roots and fractional powers can prove very awkward, and what is done instead as a practical matter by most real estate analysts is to adopt what is known as "end-of-year" discounting. Under this convention, all costs that are spread out and occur during the year are brought back to present value just as though they were incurred on the last day of the year involved.

Under an end-of-year discounting convention, the corresponding present value of the first year's lease payment, for a lease commencing 4 years from today and a discount rate of 10 per cent, would be calculated as:

$$\text{Present Value} = \$19{,}448 / (1.10)^{5} = \$12{,}075$$

OMB Directive A-104 calls for the use of end-of-year discounting, and that is the convention that has been used in LAPS.

With this convention, we may now write down the following general formula for the net present value of a multi-year cost stream arising out of real estate operations:

$$\text{Net Present Value} = \text{Initial Cost} / (1 + \text{Discount Rate}/100)^{N}$$
$$+ \text{Future Cost}_1 / (1 + \text{Discount Rate}/100)^{N+1}$$

$$+ \text{Future Cost}_2 \;/\; (1 + \text{Discount Rate}/100)^{N+2}$$

$$+ \text{Future Cost}_3 \;/\; (1 + \text{Discount Rate}/100)^{N+3}$$

$$+ \ldots$$

$$+ \text{Future Cost}_M \;/\; (1 + \text{Discount Rate}/100)^{N+M}$$

$$- \text{Reversion Value}_M \;/\; (1 + \text{Discount Rate}/100)^{N+M}$$

Each subscript in the above formula refers to the cost for that year, and ranges from 1 to M, where M is the number of years involved. The parameter

N reflects the number of years from today to the beginning of the first year of the lease, acquisition or construction project.

You will note that two extra terms are included in the above formula: the initial cost incurred on entry and the reversion value credited at the end of the period of analysis. The initial cost is distinguished from the costs occurring during the first year because the former is considered incurred strictly on the first day of the analysis, and is brought back to present value accordingly.

The reversion value is distinguished from the cost occurring during the final year, but for a different reason. Since the reversion value acts as a credit, rather than netting it as such against the costs incurred in the final year, it is customary to explicitly include it with a minus sign as shown. In recognition of the fact that the overall present value includes the effect of reversion values, it is referred to as the <u>net</u> present value.

For a lease, the future costs in each year are going to be the annual lease payments called for under the terms of the lease, plus any other out-of-pocket costs incurred by the tenant in connection with the rental of the space provided. As a result, the initial cost is often minor and the reversion value ordinarily zero.

For an acquisition, the reverse is true: the initial cost is the purchase price of the building, and the reversion value will be the total equity in the property at the end of the analysis period.

IV. A NUMERICAL EXAMPLE

Let's do a numerical example of what has been developed so far, applying the methodology to a short, 5-year lease. We will use as an example the lease case described earlier, extending the terms of the lease as follows:

Suppose that the terms of this lease call for the same level payment for each of five years. In terms of future dollars, this will mean the same payment of $19,448 to be made each year. However, the present value of each year's rental payment will be different because each such payment must be discounted back to today over a longer and longer time period. Under our end-of-year convention, the first year's payment will now have a present value of $19,448 divided by 1.10 raised to the fifth power; for the second year, $19,448 divided by 1.10 raised to the sixth power, etc.

We can help simplify the presentation of results by introducing some additional terminology. Let's go back to the basic formula for the present value and rewrite it in a slightly different manner:

$$\text{Present Value} = \text{Future Cost} \;/\; (1 + \text{Discount Rate}/100)^{N}$$

$$= \text{Future Cost} \times \text{Discount Factor}_N$$

where the Discount Factor term is defined as:

$$\text{Discount Factor}_N = 1 / (1 + \text{Discount Rate}/100)^N$$

and where N is the time span in years involved. In other words, you can first calculate the discount factor for the appropriate year, and then multiply the future value by it to obtain the present value. You will note that the discount factor is always less than 1.0 and gets smaller and smaller as N increases because we are moving further and further out in time.

In the case of our five-year lease, we can readily tabulate the intermediate results as follows:

Lease Year	Future Value	Discount Factor	Present Value
1	$19,448	.62092	$12,075
2	$19,448	.56447	$10,978
3	$19,448	.51316	$9,980
4	$19,448	.46651	$9,072
5	$19,448	.42410	$8,248
Totals	$97,240		$50,353

The middle column of our table contains the multiplicative discount factors that are needed. The first year's factor in our example is simply 1 divided by 1.10 raised to the fifth power, and each successive factor is derived by taking the entry above it and dividing by 1.10.

Note that the discount factor is simply the present value of one dollar that is received or paid (on the last day of the year) that many years in the future. The entry in each row of the present value column is the product of the entry in the future value column and the discount factor.

The total sum of $97,240 of the entries in the future value column is called the value of the lease in nominal dollars, and the total sum of $50,353 of the entries in the present value column is called the present value of the lease.

Both amounts are important but for very different reasons. In the private sector, commercial leasing agents will often base their rental commissions for finding tenants as a percentage of the value of the lease in nominal dollars.

On the other hand, all cost comparisons between two or more alternative leases must be done by rank-ordering the present value costs of each lease. The reason for this is not hard to see once it is pointed out what the economic significance of the present value of the lease is: it is the equivalent, one-time, up-front amount that if deposited into a bank account paying the stated interest (discount) rate, would just cover the costs of the annual lease payments as they were due over the life of the lease. Why is this the case? Because of the total $50,353 put on deposit, precisely $12,075 of it will grow to the $19,448 needed to pay for the first year's lease payment; $10,978 will grow to the $19,448 needed for the second year's payment; and so forth.

All other factors being equal, that lease with the lowest present value will be the most economical one to select. Note carefully that it is

entirely erroneous to compare the nominal values of two leases in order to determine which is the most economical. A simple example will show you why. Suppose instead of the above lease we were offered one for which the lease payments were not set at a level payment each year but were specified as being $17,500 for the first year, with annual increases of $1,000 per year. In terms of nominal dollars, the total lease payments are going to be $17,500 + $18,500 + $19,500 + $20,500 + $21,500, or $97,500. In present value terms we have:

Lease Year	Future Value	Discount Factor	Present Value
1	$17,500	.62092	$10,866
2	$18,500	.56447	$10,443
3	$19,500	.51316	$10,007
4	$20,500	.46651	$9,563
5	$21,500	.42410	$9,118
Totals	$97,500		$49,997

So that although the value of the second lease in nominal dollars is slightly greater ($97,500 vs. $97,240), its present value is slightly smaller ($49,997 vs. $50,353) than the first lease. It is easy enough to construct examples where the differences are not merely slight but are quite significant instead.

In actual practice, leases are far more complex than the ones described, and involve escalators, pass-throughs, tenant improvements, renewal options and many other considerations. TAPS handles them all. But no matter how complex such arrangements, the methodology must come down to the approach presented.

The subsequent chapters of the User's Guide shows how this general approach to life-cycle costing is applied in practice to the specific alternatives of leasing, construction, repair & alteration, purchase, and lease with option to purchase, as found within the TAPS model.

ADMINISTRATION OF OVERSEAS CONSTRUCTION

Question: About one-third of FBO's construction projects are being conducted under the private sector program manager concept and the remainder are being carried out directly by FBO personnel. Which group of projects is creating the most problems for FBO and why?

Answer: The most difficult problem has been the time it takes to identify and acquire sites that meet the Department's unique size, security and communications requirements. This problem exists for both Sverdrup and non-Sverdrup projects. We have now identified sites for all projects funded under the 1986 Omnibus authorization, except for Kuwait. We are addressing this problem for future appropriation requests by working to identify and acquire sites with reprogrammed funds in advance of budget requests for full project funding. As a result, sites will have been identified or acquired for virtually all new capital projects which will be included in our FY'90 appropriations request. This will save 12 to 18 months in the time it takes to complete projects after receipt of appropriations.

The group of projects which have created the most problems are those which were funded prior to the 1986 Omnibus Act and creation of many of the new security standards. Considerable extra design time was required to superimpose a series of new security standards and program changes into the building designs. New site security requirements had to be imposed after construction had begun, and major changes in qualification and contracting procedures mandated by the Omnibus Act had to be developed and implemented, causing a delay in the contracting process. These problems had to be addressed on pre-Omnibus in-house and Sverdrup supported projects. Construction on most of these projects will be completed in 1988 and 1989.

Question. What management approach is planned for rebuilding the Moscow embassy? Is this one for the private sector program manager to demonstrate its expertise?

Answer. The engineering/security study will, to a degree, define the extent of private sector participation in the reconstruction process. Given the extreme sensitivity of the security considerations associate with reconstruction, it seems logical that overall project direction remain with the U.S. Government. However, the exact relationship between the government and the contractors will be determined prior to presentation to the Congress of the Department's recommendations for reconstruction.

Question: Why does FBO have so many problems deciding what construction projects should be undertaken, doesn't each major mission have a master development plan?

Answer: The current construction program is predicated on the assessment of the security threat situation at all

posts. The June 1985 Report of the Secretary of State's Advisory Panel on Overseas Security concluded that nearly one-half of our current inventory of buildings overseas did not meet adequate security standards. A major recommendation of the panel was that the Department embark on a new massive construction program to provide facilities at 126 posts. The initial estimates of cost for this program exceeded $5 billion. The Department requested a program authorization of $2.9 billion to address our facilities at the 77 highest-threat posts. The Congress enacted an authorization of $2.1 billion for 55 posts. To date, we have received $0.6 billion in appropriations to cover 25 posts. These projects are underway in various stages: site acquisition, design, and construction.

We continue to pursue the projects specifically authorized in the priority order based on our ability to acquire sites. The security related construction program dominates our current budget allowances. Other projects at lower threat posts must be deferred. However, we are exploring alternative approaches to design and construction for smaller facilities at low threat posts. If pre-engineered techniques prove feasible, we hope to be able to propose lower cost solutions to our most urgent requirements at these latter posts.

We do not currently have master development plans for each post around the world. The concept has merit, but applying our scarce resources to such long term planning when the immediate priorities are known and exceed budget allowances is not prudent.

Question: Given State's past construction problems, does the Department now have the necessary resources and expertise in place to effectively manage the on-going projects?

Answer: Concurrent with the expansion of the construction program funding, A/FBO was reorganized to enable it to effectively manage the program. The reorganization was approved in December 1986, and the Department released the new position authorization increase of 133 positions to A/FBO in March 1987. To date all of the new or revised organizational units have been established, and most of the new positions are established. As of the end of March 1988, A/FBO had 121 of the 133 new positions filled by direct-hire or contract employees, or committed to individuals awaiting clearances. In total A/FBO has 271 of its 299 authorized positions filled or in the clearance process.

The reorganization also encompassed the utilization of the program management concept to construction projects and the use of a contract program management firm to buttress the A/FBO staff efforts. Both of these objectives have been met. The Program Management Division has been established and is fully operational. Each project has been assigned a project manager who follows the project from inception to completion to assure that the project remains on schedule and within budget. In addition, the Sverdrup Corporation was awarded the contract as the

Program Management contractor and has assumed support responsibility for 22 of our on-going projects.

The FY'86 security supplemental request included 177 new positions to support the capital construction program. This request was reduced to 133 new positions in the appropriations action. These positions were fully justified and are needed. We have been able to manage without them because many of the projects required sites and the site acquisition process is less labor intensive than the design and construction phases. However, with the currently funded projects moving into design and construction these additional positions become critically important. In addition, we face a number of program and management requirements such as our maintenance initiative that will require increases in personnel and funding. These issues will be considered in the context of the FY'90 budget process.

Question: The Federal Acquisition Regulation requires that the Department document the complete history of projects in individual contract files. Yet GAO and the Inspector General have in the past reported that State was not doing the bare minimum in this area. What has State done in the last year or so to correct this problem?

Answer: The deficiencies reported are recognized and steps are being taken to meet the requirement. A/FBO has issued an internal policy and procedure directive on project file documentation. This policy specifies the documentation required for Planning/Programming, A/E Contracting, Design Management, Construction Contracting, Construction Management, and Project Close-out. The policy specifies the items to be included in the files and includes a project file checklist.

MOSCOW EMBASSY

Question: How much money has the State Department expended in hiring an outside firm to help document claims against the Soviet contractor?

Answer: The Department awarded a contract to MDC Systems Engineering to help, through engineering analysis, to document claims against the Soviet contractor. As of 5/6/88, $171,412 had been expended on the contract scope of work.

Question. What will be done with the construction material stored in the warehouse in Moscow? Is this warehouse being kept under guard?

Answer. Following a thorough technical inspection by DS, some materials have been approved for use in unclassified areas. Those items which have not been accepted by DS will be disposed of in accordance with Departmental procedures.

The Moscow NOB warehouse has been without American Guards

since November 1986 when the Soviets imposed a ceiling on our personnel within the Soviet Union.

In order to remain within the new personnel ceiling, the Embassy withdrew the American Guard coverage from the NOB warehouse and moved the few sensitive items stored there to the NOB itself, where 24 hour MSG coverage was already in place. Cleared American Guards are scheduled to again secure the NOB warehouse in June 1988 (immediately after the Summit), prior to delivery of any additional materials requiring protection.

Question: In its October 1987 report on the Moscow embassy, GAO pointed out that FBO had a list of potential claims against U.S. contractors and that other potential claims might also evolve. Since construction was essentially halted in 1985, when does State expect to act on these claims?

Answer: Construction of the new office building (NOB) was halted in August 1985. Construction continued on the balance of seven buildings of the new Embassy complex until completion of the complex except for the NOB in early 1987. Potential claims against US contractors involved portions of the complex other than the NOB. While some claims have been settled, others are in process of analysis and development.

Question: If the new office building is torn down, will FBO forego its claims against the Soviet and U.S. contractors?

Answer: No claim would be withdrawn if the new office building is dismantled.

Question. Does the existing agreement between the United States and the Soviet Union for the construction of an embassy in each other's country need to be revised in any way to ensure prompt completion of the U.S. Embassy in Moscow?

Answer. There are provisions of the conditions of construction agreement concluded in 1972 which would create difficulties if they were applied during the reconstruction process. The Department is considering options to ensure that construction conditions will be suitable for the rebuilding process. Soviet Foreign Ministry officials have indicated that they wish to expedite the completion of the NOB to permit their Mission in Washington to move into its new chancery as soon as possible. As long as Soviet officials are cooperating with our efforts, we prefer not to undertake formal negotiations, as the renegotiation process itself would delay our project.

Question. The existing agreement calls for the United States to give back the old embassy when the new one is occupied but State now wants to keep the old one too. What reciprocal provisions do the Soviets want

in return for allowing the United States to retain both the old and new embassy facilities in Moscow?

Answer. As there have as yet been no formal negotiations with regard to ultimate retention of the existing chancery, it is impossible to conclude what Soviet demands might be. Until such time as a jointly agreed plan for the eventual configuration of U.S.Embassy buildings in Moscow has been approved, it would be premature to speculate on Soviet demands.

Question: Please summarize State's plans for the logistics that would be involved in rebuilding the new office building?

Answer: The secure logistics system in rebuilding the new office building is in the scope of work of the security/ engineering study in process at this time. However preliminary plans include the following elements:

-- exclusive use of US materials and security cleared US contractors and US workers;

-- classification and protection of design and construction documents;

-- random acquisition of materials with undisclosed final destination;

-- containerized packing that will record any breach of container;

-- surface shipment to Helsinki of all but most sensitive equipments which will be air shipped to Helsinki;

-- secure warehouse facility in Helsinki;

-- over-the-road courier-accompanied shipment to Moscow;

-- secure US warehouse facility in Moscow;

-- transport of break bulk material from Moscow warehouse to building site by security cleared Americans; and

-- stringent site security and construction surveillance.

Question. The original design of the embassy took months to get approved by the Soviets, what is the prognosis for getting any new plan approved?

Answer. In the interest of speeding occupancy of their Mt Alto chancery, Soviet Foreign Ministry officials in Moscow have expressed a desire to expedite the construction process. Exactly how this is to be accomplished has yet to be determined. On its part, the Department assumes that since construction of the chancery compound in Moscow is essentially complete and since the redesign of the chancery building will be consistent with the aesthetics of the approved design, no significant delay will be encountered.

USIA BUILDING IN CALCUTTA

Question: GAO reported that FBO's efforts to construct the USIA office building in Calcutta, India, has been plagued by construction problems, long delays, and major cost overruns. The foundation had not even been completed after 2 years of work. Is this just another case of poor FBO management? Please provide your perspective on the nature and extent of the delays and cost overruns in relationship to the original estimate.

Answer: The report accurately describes A/FBO's construction management decisions in response to the problems encountered early in the project resulting in the failure of the diaphragm walls. These decisions were in accordance with normal industry practice and were guided by the provisions of the contract, the capabilities of both parties to the contract, and the desire to arrive at a sound engineering solution to the foundation problems.

Our experience thus far has confirmed that A/FBO made the right decision. The three basement levels and associated structures were completed as of December 1987; the super-structure is now at the third level above ground. At the present rate we are placing one floor per month and anticipate project completion in mid-1989 barring unforeseen construction problems.

The project has been delayed 17 months beyond the original contract completion date of October 30, 1987 as follows. Foundation design changes to the piles and diaphragm walls due to unanticipated soil conditions delayed the project three months. The eight month period from August 1986 through March 1987 is attributable to assessing liability, responsibility and developing an acceptable bracing and shoring design for the diaphragm walls. An additional six months were required to implement the bracing and shoring design.

This project was originally funded by excess Indian Rupees under a Special Foreign Currency appropriation. The original budget assumed extensive use of locally procured materials and equipment.

New security policies dictate use of US procured products and labor at a dollar cost estimate of $650,000. These requirements include mandatory security features (vehicle barriers, forced entry doors, bulletproof teller windows), fire life safety systems, and elevator system controls. This amount is the only overrun with respect to the original estimate.

Question: FBO planned to terminate the contract with the Indian firm building the USIA building in Calcutta, but the U.S. Ambassador to India and his staff indicated to FBO their concern about the potential political consequences of such an action. Then FBO decided not to terminate the contract with this Indian firm and has agreed to pay more than the original contract price. Does FBO routinely have to deal with such political pressure/influence from Ambassadors on FBO construction

projects? Who is the final authority in country on a construction project?

Answer: The Deputy Assistant Secretary for Foreign Buildings Operations is the final authority on all construction contracts and is ultimately legally responsible for the protection of Government interests with respect to those contracts. In certain cases A/FBO seeks input from the Embassy to ensure that a proposed action will be in keeping with the foreign policy interests of the USG.

While the Department was aware of the Ambassador's concern about the possible political consequences of contract termination, the decision to retain the contractor was based on determinations by technical and engineering experts that the contractor was technically competent to implement the design solution to the diaphragm wall problem, and to complete construction in an acceptable manner. Had it been determined the contractor was not competent, the contract would have been terminated.

APARTMENT BUILDING IN HONG KONG

Question: It took several years for the 79-unit Bonham Road apartment complex to be ready for occupancy, now FBO has terminated its involvement in the project. Why did FBO decide to terminate the deal, when the building, located in a middle class area of Hong Kong, met both State's security and housing standards?

Answer: The most compelling reason in the decision from a cost/benefit standpoint was the total number of apartments the USG requires in Hong Kong at the present time and those expected to be needed by 1997 when the Peoples Republic of China assumes sovereignty over the territory. Although the Bonham Road apartments numbered 79, a number based on the requirements existing in 1981 when the project began, the current need is for only 72 apartments, 7 less than in 1981. By 1997 this requirement is anticipated to be only about 50 units, plus the presently owned 26 apartments on Shouson Hill, and 11 other owned dwellings including the Consul General's residence. The Department's decision to terminate its involvement in the Bonham Road project and, alternatively, to acquire 50 dispersed units through lease/purchase arrangements is estimated by A/FBO to afford the USG a cost savings of $8 million over the next ten years. Concurrently, there was strong concern expressed by the intelligence community at the post that the Bonham Road building did not conform to even minimal security standards. With such a high occupancy by our personnel they believed it would have presented a very lucrative and opportune target for terrorists. The facility did not, in fact, meet current Diplomatic Security residential standards. Although Bonham Road met A/FBO construction standards and minimum space standards, there was considerable opposition from the entire Consulate community because of the unfavorable location and lack of conveniences or amenities.

Question: Is it true that among the reasons given for by

personnel in Hong Kong for not wanting to move into the Bonham Road apartment complex were:

(a) they would have to share the swimming pool with Chinese residences from a twin tower in the complex,

(b) there wasn't enough storage space but there were more apartments than they would need,

(c) the apartments didn't have enough room for maids to live in,

(d) there weren't enough parking spaces for residents of all 79 apartments,

(e) the apartment complex was located in an area where middle class Chinese lived and not in an area where other expatriates live,

(f) the building was too close to a busy street, and

(g) the high concentration of American personnel in one building could represent a target for terrorists.

Didn't FBO and others know about these conditions before entering into the arrangement to have the apartments custom-built? Are these really sufficient reasons for not occupying a building? For example, is the purpose of having U.S. personnel in Hong Kong to meet and deal with the people of Hong Kong or merely to live where other expatriates live? If the building met U.S. security and housing standards, why would you abort the project just when it was ready for occupancy?

Answer: The following responses are serially keyed to the questions:

(a) US mission personnel and dependents and families of various other nationalities occupying the two-tower compound, comprising approximately 178 families, would have had to share a crowded, common, 20x40-foot swimming pool facility. There were in the tower design no private social areas and recreational facilities. There was no play area for children in or adjacent to the building.

(b) There was almost no storage space available, nor was there space in the parking area to build any. Authorized employee shipping allowances have increased substantially since 1981, and space was not available for the storage of personal items. The units were built to Hong Kong standards and minimally conformed to A/FBO space standards. Kitchens were severely undersized. In some 4-bedroom apartments the kitchen floor space was actually less than 6x6 feet. The laundry area was so small that the doors had to be redesigned to allow better access. Please see response to the first question regarding the number of apartment units needed.

(c) The apartments did not include accommodations for live-in maids.

(d) The parking facility was inadequate. The ceiling height was so low that it would not permit entry of

service vehicles, thereby creating difficulties for pickup and delivery. The location of the building (approximately 3 miles from the Consulate office building) was expected to result in a substantial increase in employees wishing to drive to the office. There is no employee parking available at the Consulate office building.

(e) The location of the facility is in a predominately high-density, middle-income residential area in the mid-levels of Hong Kong. The surrounding area is composed of small shops and poor- to medium-quality housing. It is near a major port and trucking area. Shopping would have been difficult for US dependents, as few shopkeepers in the neighborhood speak English. The shops are not geared to foreign shopping preferences. For this and other reasons cited in the response to these questions, few expatriates live in the area.

(f) The building fronts directly on a busy street which is the only vehicular route to and from the apartments. The street is heavily traveled by trucks, buses, motorcycles and other private vehicles, creating high noise levels and above-normal air pollution.

(g) The building, inhabited by large numbers of American families, could easily have been a tempting target for terrorists. It would have been extremely easy for a vehicle loaded with explosives to drive into the basement--to which other occupants and the public would have had access--and detonate.

The nature of the threat of terrorism that would develop against US personnel and facilities and the steps the USG would need to take to deal with that threat were not fully foreseen in 1981 when the project began. As indicated above, the units were built to local space standards and minimally conformed to A/FBO space standards. The existing neighborhood environmental conditions of overcrowding, pollution and steadily increasing vehicular traffic were not foreseen in their present magnitude in 1981. USG personnel in Hong Kong are officially encouraged to, and do, meet and interact with the people of Hong Kong. Notwithstanding, other issues cited in these responses militated strongly against moving into the Bonham Road apartment complex.

Question: How much do the taxpayers spend each year on average for each leased residence that U.S. employees live in now that the Bonham Road apartment project has been terminated?

Answer: Based on 20 new leases which have been signed by the post since the Bonham Road apartment project was terminated, the average cost is $40,087 per year per residence. Rental costs in Hong Kong are increasing at a rate of 10% per year. The basic cost of lease/purchasing all of the 79 apartments at Bonham Road over the projected 10-year period would have been $43,358,000. The average annual lease cost per unit for 79 units at Bonham Road over a 10-year period, therefore, would have been $54,883. However, costs incident to required change orders, conversions for recreation and storage, furniture and furnishings, appliances, moving, telephone

installations, pest control, security items and restoration of 72 apartments under previous leases would have added another estimated $8 million to the Bonham Road project.

Question: What is the amount that FBO agreed to pay in cash to the developer to terminate U.S. involvement in the project? Isn't it in excess of $2.5 million? Weren't other properties given to the developer when the projects started? What was the total cost to the taxpayers for U.S. involvement in this project? What did the taxpayers get for such expenditures?

Answer: The Deed of Release signed by the USG and New World Development provided payment to New World of $2,782,051 on the date of signing and $192,308 to be made within five days of signing. With execution of the Deed of Release, the parties in general released each other of all obligations and liabilities with respect to the Bonham Road project. Under the 1981 agreement New World agreed to develop Bonham Road and undertake two other major construction projects: to construct a new Consul General's residence and 5 senior officer residences, and to contribute $2 million toward the completion of a 26-unit USG-owned staff apartment complex at Shouson Hill. During the construction of the Consul General's residence and the 5 senior officer residences, these officers and 8 staff employees were provided with rent-free housing by New World as part of the agreement. A/FBO estimates that the value of the USG property exchanged was $107,000,000 Hong Kong dollars and that the funds expended by New World for the benefit of the USG, with the exception of Bonham Road, was $109,601,140 Hong Kong dollars.

NEW DELHI SENIOR OFFICERS RESIDENCES

Question: What is the current status of the project to construct senior officers residences in New Delhi, India, that started years ago? Is the Indian contractor still refusing to allow embassy officials to occupy two of these residences because FBO would not pay certain charges? Who is occupying these residences now? How much has FBO spent on these residences and what has been received for those costs?

Answer: One of the two duplex dwellings has been occupied by two senior officers and their families since November 1982. The contractor still refuses to allow Embassy officials to occupy the second duplex, and both units of the dwelling stand vacant. A/FBO has paid the contractor slightly more than $1 million for both duplex dwellings. This figure does not include legal fees nor the $94,500 in cost of essential repairs made to the home that we do occupy.

Question: How much has State spent on legal fees, since the Indian contractor sued the U.S. government for non-payment?

Answer: A/FBO has paid $9,035 for legal fees up through July 24, 1986. On July 25, 1986 the Department of Justice assumed responsibility for this case and all associated legal costs.

Question: How much has State spent to provide alternative housing for the years that senior officers could not move into these facilities?

Answer: From March 1983 to the present approximately $300,000 has been expended for rent for two leased senior officer residences.

Question: What is State's best guess as to when Americans will be able to move into these 2 residences?

Answer: The Indian legal counsel retained by the Department of Justice estimates that it will take 10 to 15 years for the court case to be resolved.

INTERIM EMBASSY IN SOUTH AFRICA

Question: Did FBO recently sign an agreement to purchase a building in Pretoria, South Africa, for use as an interim embassy, without having received all the required formal approvals? In light of the Ambassador's determination that the current embassy is now an unacceptable security risk, when will the interim embassy building be available for occupancy? Will it meet Diplomatic Security's physical security standards?

Answer: A/FBO did not sign an agreement to purchase a building in Pretoria for use as an interim embassy. It did sign a one month option to lease the building. All required formal approvals were received for the project. As a result of the disapproval by the House Subcommittee on Appropriations of the Department's request for reprogramming of funds for this project, the lease option on the building was not renewed and the project has been cancelled.

In view of the physical and technical security threats faced by our existing Embassy, the Department is exploring every avenue for expediting completion of the new chancery construction project. The current schedule projects award of a construction contract by February 1989 and completion of construction in May 1991.

Question: Why should the U.S. government spend at least $10 million to get an interim building? Why not make this building the permanent embassy?

Answer: While the proposed interim office building would have provided a significant improvement over the extreme physical and technical security vulnerabilities of the existing chancery, it would not have met the security standards appropriate and necessary for our long-term needs in Pretoria. Those requirements can only be met by a new, permanent facility.

FACILITIES AT CLOSED POSTS

Question: In recent years, State has closed a number of overseas posts. Have the facilities that we once used at these locations been sold? If not, why not?

Answer: The post closings have resulted in sales of property totalling almost $1.1 million. Some property is being used by other agencies, as is the case in Tangier where the Voice of America and the Corps of Engineers plan to use the facility. The only surplus property remaining from the post closings is in Trieste where the real estate market is depressed and we are holding on to our property until conditions improve.

Question: How much property does State control around the world that is not now being used? Please provide listing with estimated values.

Answer: We do hold undeveloped property that is reserved for future construction and many properties that are used as parking lots. It is difficult to provide estimated values on these properties without the guidance of real estate specialists at each post. The listing of those properties is attached.

Question: Is the Department currently leasing out to others any property it owns overseas? If so, please provide detailed listing and an explanation for the Department to be in leasing business. Also indicate how much money State received in FY 1987 from leased overseas properties?

Answer: The following is the income received in 1987 for leases:

Brussels, Belgium	$ -3,891.13
New Delhi, India	13,491.93
Lome, Togo	602.41
Bujumbura, Burundi	1,699.68
Bonn, Germany	496,542.95
Damascus, Syria	59,396.50
Kigali, Rwanda	3,502.00
TOTAL	$571,344.34

Much of the leasing income is a result of temporary use of vacant quarters by TDY personnel. In Germany excess housing which is part of the Government-owned compounds in Bonn and Frankfurt, is leased to private citizens, mostly teachers at the US overseas schools.

POST	ADDRESS		EST.MKT VALUE	Comments
BUENOS AIRES	3033/3035 ORO STREET		5,000	
LA PAZ	AVENIDA ARCE NO.	2756	2,383	
BRASILIA	SMI-NORTE LOT 21		100,446	Part of proposed Rationalization
BRASILIA	SHIS QI 15, CH.15/16		440,000	Project
BRASILIA	SHIS QL 10 CJ 06 L02		100,000	
BRASILIA	SHIS QL 10 CJ 10 L03		100,000	
BRASILIA	SHIS QL 12 CJ 02 L14		100,000	
BRASILIA	SHIS QL 14 CJ 03 L9-	10-11-12	400,000	
BRASILIA	SHIS QL 12 CJ 06 L10		100,000	
BRASILIA	SHIS QL 12 CJ 06 L12		100,000	
SANTIAGO	AVDA. LIBERTADOR	BERNARDO O'HIGGINS	1,500,000	New Chancery site, may have to be traded
SANTIAGO	COSTANERA	ANDRES BELLO	1	
SANTO DOMINGO	LEOPOLDO NAVARRO +	CESAR N PENSON	19,327	
GUATEMALA	LOT 42 11TH AVE ZONE	14	30,431	Future DMC residence site
GUATEMALA	LOT 20 11TH AVE ZONE	14	24,618	
PORT AU PRINCE	AVE. N		59,109	
KINGSTON	BAMBOO PEN	PROPERTIES KINGSTON	1,160,000	Future Chancery site
KINGSTON	PARK CLOSE BLVD.,	LIGUANEA CLUB LOT2	1,500,000	
CURACAO	JOHN B GORSIRA WEG		1,666	
COLON	621 + 622 FORT DE	LESSEPS	517	Confiscated by host government
NICOSIA	NELSON & ROTSIDES	STR	143,114	On Turkish side of island
OTTAWA	WELLINGTON STREET		2,529,577	parking lot for current Chancery
BUDAPEST	ROSENBERG HAZASPAR	UTCA 7	698,000	
ANKARA	GOLBASI LOT #69	GOLBASI	90,000	
TAIPEI	133 PO AI ROAD		40,555	
SUVA	PRINCES ROAD		92,307	
MANILA	BONIFACIO COMPOUND	MCKINLEY	838	We do not have clear title
SINGAPORE	8, 14 LEEDON PARK	SINGAPORE 1026	1	Part of property exchange
SINGAPORE	19, 21, 23, 25, 27	LEEDON PARK	0	
DHAKA	AYUB AVENUE NAWAB		32,114	Future GSO compound, next to NOB
TEL AVIV	69 HAYARKON STREET	TEL AVIV	1,500,000	Chancery parking lot
TEL AVIV	PARCEL 65 BLOCK 6665	KFAR SHMARYAHU	68,230	
KATHMANDU	BRAMHA COMPOUND		1,367,216	Future Chancery site
ISLAMABAD	DIPLOMATIC ENCLAVE		160,227	Future GSO site
DAMASCUS	PLOT 206 WEST ABU	RUMMANEH	255,166	Future Chancery or school site
ALEPPO	PLOT 4525 FOURTH	DISTRICT	42,581	
TUNIS	AVENUE THIEB MEHIRI		163,870	Chancery parking lot
LUANDA	ALBURQUERQUE	PROPERTY	24,546	
MASERU	254/255 KINGSWAY AVE		500,000	
KINSHASA	AVE DE LA JUSTICE	815 & 679, KILO-MOTO	340,296	
BANGUI	AVE DU 1ER JANVIER	1966	40,000	
BRAZZAVILLE	RUE LEON JACOB, M	PILA	12,897	
DAKAR	CAPE MANUEL PROPERTY		1,250,956	
HARARE	LOT 118, 3 TINA	CLOSE	25,500	

REPRESENTATIONAL HOUSING ALLOWANCES

Question: In 1987, the State Department's Inspector General recommended that representational housing allowances be eliminated for overseas personnel below the rank of deputy chief of missions. What is the estimated savings in adopting this recommendation? Is State now implementing this recommendation? Are such savings reflected in the FY'89 budget request?

Answer: The 1987 Management Inspection on the representation function recommended the elimination of representational housing. Although no final action has as yet been taken to eliminate the category of representational housing, the Office of Management Operations has assigned a senior State officer to address the issue, the Washington Interagency Housing Board was briefed on the effort at its April 27, 1988 meeting, and a worldwide action cable was directed to the field on May 6 for the purpose of:

-- developing a more complete and up-to-date data base on housing units designated as representational;

-- charging the posts to begin immediately phasing out representational housing which is little used for representation; and

-- providing guidance for the assignment of representational housing while leaving posts full discretion on action aside from providing requested data.

It will be difficult to quantify the estimated savings in adopting this recommendation. In some cases larger housing units, although not needed for priority representational activity, may be the only livable housing available in the local market or it may be significantly cheaper when required costly improvements, such as residential security upgrades for alternative leases, are taken into consideration. Further, alternative representational entertaining arrangements outside the residences, instituted as a matter of policy (e.g., restaurants), may prove to be uneconomical. With the rapid increase in rental costs at many posts, compounded by changes in the value of the dollar, it may be impossible to identify savings from the reduction of representational housing. Given the time required to fully implement any new policy on representational housing, we do not expect these efforts to produce significant savings in our FY'89 budget. Prospective savings of this nature are therefore not reflected in our FY'89 budget request.

The criteria to justify assignment of representational housing, if such housing is continued, is still under discussion in Washington. Many offices at State and the other foreign affairs agencies question the wisdom of eliminating a valuable tool for many of our most productive officers. Further steps in this regard will be considered based upon responses from the field.

FOREIGN BUILDINGS OFFICE

Question: How many projects will be underway in 1989 and how does that compare to 1988?

Answer: We currently have 58 projects underway including 25 in construction, 17 in design, 16 in site acquisition stages. We expect to complete construction of seven projects in 1988, seven projects in 1989, and four projects in 1990. Since we received no funding for new projects in 1988 and are requesting no new project funding in 1989, we will have 51 projects underway in 1989 as compared to 58 in 1988.

Question: Will we have adequate supervision of those projects in view of the $9.8M reductions to project supervision?

Answer: Yes. The level of funding requested each year for project supervision is a function of the number of projects under construction and previous funding received.

Question: What is meant by "phased down renovation" in Bonn? Does this imply a change in the renovation progress in Bonn?

Answer: Instead of asking for all the funds to complete renovation of our chancery in Bonn in FY'89, we have requested only the monies for restoration of the 5th, 6th and 7th floors, deemed the most essential element of the work. The remaining items are facade rehabilitation and window replacements for the two wings of the chancery.

Question: The February 29, 1988 security report shows that $539,783,000 of the $622,000,000 available for construction is still uncommitted. Most of this money is almost 3 years old. If you have no real plans for it, shouldn't we make an appropriate transfer to take care of the Department's 1989 shortfall?

Answer: Under the concept of full funding for the capital program, which the Congress approved, we both recognized that the expenditure of these funds would take place over several years as the project phases are completed. These phases include site acquisition, design and construction. The bulk of costs are in the construction phase which comes in the third year of the project cycle. These funds are fully committed to projects at high threat posts and may not be transferred to other purposes without cancellation of specific projects. We expect these funds to be fully obligated by FY'91.

This money is not almost three years old. The FY'86 Security Supplemental provided $409 million on September 30, 1986 and the regular FY'87 appropriation of $213 million was enacted late in the fiscal year. Therefore, the monies have been available for less than two years.

Question: Please furnish, for the record, a project-by-project distribution of the $539,783,000 and the date each project is to commence.

Answer: Brief status report follows keyed to each project:

Project	Funding Balance	Status
Algiers	$ 469,000	Design: A/E cost proposal under review
Amman	$ 12,857,000	Under construction
Bangkok	$ 800,000	Design: A/E contract price negotiations underway
Bogota Annex	$ 4,000,000	Design Build contract signed April '88
Bogota COB	$ 57,542,000	Site selection completed; A&E firm selected
Cairo II	$ 44,482,000	Design: A/E proposal under review
Caracas COB	$ 7,670,000	Design: A/E proposal under review
Dhaka COB	$ 3,009,000	Under construction
Djibouti PCC	$ 800,000	Under design
Doha OBC	$ 6,358,000	Design: RFP for A/E being finalized
Geneva Annex	$ 48,240,000	Design: Technical evaluation of A&E proposal underway
Georgetown OBC	$ 3,260,000	Under construction
Istanbul COB	$ 33,707,000	Site selection completed; A&E firm selected
Izmir COB	$ 8,023,000	Sites identified; selection review underway
Khartoum OBC	$ 32,420,000	Design: A&E cost negotiation completed
Kingston OBC	$ 32,000	Project on hold.
Kuwait COB	$ 6,002,000	Site selection process underway
La Paz OBC	$ 12,611,000	Under design phase of Design/Build project
Lima OBC	$ 68,605,000	Site selected; A/E selected
London Special	$ 13,348,000	On hold; funds being reprogrammed to other projects

Manama OBC	$ 4,072,000	Under construction
Mogadishu OBC	$ 3,723,000	Under construction.
Moscow NOB	$ 19,000,000	Project on hold; security/engineering feasibility studies underway
Muscat OBC	$ 626,000	Under construction.
Nicosia OBC	$ 6,648,000	Under construction.
Pretoria OBC	$ 31,388,000	Design approaching 90%
Rabat OBC	$ 1,740,000	Design: A/E proposal under review
Sanaa OBC	$ 3,846,000	Under construction
San Salvador AID OB	$ 9,703,000	Design Build site selected; contractor proposals under evaluation
Santiago OBC	$ 43,956,000	Design
Tegucigalpa OBC	$ 1,956,000	Under construction
Tunis OBC	$ 29,000,000	Site selected; A/E under negotiation
AID Misc. Rehabs	$ 2,225,000	Various projects underway
Foreign Commercial Service	$ 3,608,000	Various projects underway
USIA	$ 14,057,000	Various projects underway
TOTAL	$539,783,000	

DEPARTMENT OF STATE TELECOMMICATIONS NETWORK

On March 14th, the Department submitted a reprogramming of $11,000,000 in no-year funds to implement an enhancement of the Department of State telecommunications network (DOSTN). We have held this reprogramming until this hearing. We have no problems with the plans for enhancing DOSTN, which Senator Lautenberg has endorsed in a letter to me.

Question. However, State's Comptroller has supplied information that there is a shortfall of $102 million in State's 1989 request. Does the Department want to reconsider letting $11 million go to DOSTN.

The $102 million that you refer to is the total increase over the 1988 CR level that under ideal conditions would allow for the full funding of mandatory increases and exchange rate losses in both the Regular and Diplomatic Security programs; initial construction costs for the new National Foreign Affairs Training Center; replacement of

FSNs in Eastern European posts; and the funding of modest program growth in such important areas as information management systems. Of course the exact magnitude of the problem in 1989 will depend on the amount Congress appropriates, overseas conditions and the value of the dollars.

Regardless, it is imperative that we begin as soon as possible, the DOSTN project to modernize our world-wide communications network. The present system is fast becoming obsolete because of its lack of flexibility, inefficient allocation of dedicated circuits, limited user services, delayed transmissions, and limited network management and control capabilities. Our circuit costs have nearly tripled in the last seven year, going from $10 million to $27 million annually. Without DOSTN, growing data transmission requirements will continue to push this figure upward as more expensive, single-purpose, dedicated circuits will be purchased to meet these increased requirements. Further, DOSTN will more readily facilitate cost sharing with other agencies by providing automated accounting and billing information.

Question: DOSTN will require a net of $114,000,000 to equip the 273 posts over a 5 year period. Are the follow-on costs of $103,000,000 assumed in the Department's out-year projections?

Answer: Yes, the Department's out-year projections include the follow-on cost of the DOSTN Program which total $103.7 million above the $11 million FY 1988 reprogramming.

Question: Just what will the $114,000,000 be spent for, as the Reprogramming gives us words but no dollar amounts.

Answer: The table below reflects the $114.70 million budget estimate by category, taking into account estimated offsets:

$Millions

	FY-89	FY-90	FY-91	FY-92	FY-93	Total
One-Time Costs	$7.50	$13.74	$11.33	$1.86	$11.37	$45.80
Recurring Costs	3.80	29.63	18.52	11.90	5.05	68.90
Total	$11.30	$43.37	$29.85	$13.76	$16.42	$114.70
Posts	19	72	89	25	68	273
Positions	--	19	9	5	5	38

"One-Time Costs" includes telecommunications equipment, government furnished equipment, facilities preparation, software, and Program Management Office travel. "Recurring Costs" includes contract support, circuits, personnel, and equipment and facilities. These projections show net costs for DOSTN. Bear in mind that the DOSTN network will replace entirely the present dedicated leased line network presently being used.

FREEDOM OF INFORMATION ACT

On March 17th Deputy Secretary Whitehead wrote me of the Department's concerns about inadvertent disclosures of sensitive National Security Information pursuant to Freedom of Information Act requests. I recall an example of a request for all cables transmitted between the U.S. Embassy in Managua and Washington for a nine-year period that amounted to nearly 10,000 telegrams.

Question: How much staff time does the Department estimate it expends annually in response to FOI requests?

Answer: The Department estimates that it expends approximately $2.3 million for 50-60 employees for administrative support and approximately $2.9 million for 50 employees for substantive review in responding to requests from the public under public access legislation. There is an ongoing backlog of approximately 11-12 months of pending requests. We estimate that funding for an additional 100 positions would be required to fully comply with statutory deadlines.

Question: Has the Department been able to dissuade the authors of H.R. 3885 that the bill upsets the balance you now have between informing the public and protecting the national interest?

Answer: No. Although the co-sponsor of the bill has notified the Department that no action on H.R. 3885 is likely during this Congress. Our primary concerns--the balancing test in reviewing national security information and the potential for the inadvertent release of national security information through the mosaic effect in large-volume requests--were not addressed. We will continue to look forward to cooperating with committees such as yours to advance our concerns in resolving the dilemma in implementing the objectives of public access legislation while providing adequate protection to sensitive foreign policy information.

FOREIGN AFFAIRS ADMINISTRATIVE SUPPORT

During my first term as Chairman of this subcommittee, we were persuaded by former Assistant Secretary John Thomas that State should budget and provide for the administrative services overseas. An appropriate adjustment was then made to the various accounts.

Now as budgets are tight there is an interest by our House colleagues in charging the overseas administrative costs to the other agencies. In our last two Conference Reports they have asked for a report from the Department calling for full reimbursement of the administrative services State provides the other agencies. By letter of March 30, 1988, the Department stated that a decision on this has been postponed to the 1990 budget.

We have a table from the Department that states that since 1980, they U.S. staff overseas has grown from 31,333 to 34,126 an increase of 8%. In fact, I am surprised to find that State has added more than 1,500 people overseas

as the Ambassadors would have you believe all the growth was in Washington.

Meanwhile, the Administration staff has decreased from 7,056 to 6,827, a reduction of 3%. Perhaps there have been some savings in the administrative areas, but it would seem from the figures that we have that the complaint might be that State is not keeping up administratively with the growth overseas.

Question. Mr. Spiers, How is it that we have been able to increase our presence overseas while at the same time reducing the overseas administrative staff?

Answer. The table upon which this question is based reflects raw data from our overseas posts which is used only as information points by agencies participating in the FAAS system at each of those posts. The number of administrative support employees reflected on that table is skewed somewhat by the fact that over the last few years, approximately 900 employees were transferred from the "FAAS Staff" category to the "State Program" category. These were employees engaged in maintaining government-owned and long-term leased properties overseas. Funding for this function is the responsibility of the State Department regardless of the occupancy level of other agencies. Accordingly, these employees were transferred from the "FAAS" category to the "State Program" category so that their costs would not be considered with those to be shared with other agencies.

Question. Many of these other agencies -- USIA, Foreign Commercial Services, the Travel Services -- are also in this bill. So all we will be doing is moving the money around. How much would we really be saving to this bill by changing the system?

Answer. We are now in the process of negotiating the principles of a revised system with the serviced agencies and there are no reliable figures available at this time to respond to your question. It is certain, however, that merely changing the cost distribution system will not yield any savings in the total costs of federal programs overseas. However, we and our House committees are concerned that the present system does not promote equitable burden sharing and creates false economic incentives for the proliferation of non-State Department agencies overseas in a time of budget constraints.

For example, in determining whether to expand their overseas presence, other agencies need not consider the full costs associated with office or housing space since State funds virtually all costs associated with government-owned and long-term leased properties overseas, regardless of occupant. Moreover, the Department funds virtually all communications costs plus the majority of common information systems support and the replacement of common-support motor vehicles.

Our concern in pursuing changes to the system is based on the need to obtain relief from those support areas which cause us to draw upon our diminishing resources for the benefit of other agencies. We want to revise the cost-sharing system in a way which promotes equitable burden-sharing yet maintains the cohesion among agencies necessary for the government to benefit from the "economies of scale" inherent in consolidated support organizations.

Question. One of those agencies overseas is that agency we don't mention. Would they be included in any redistribution of these costs?

Answer. Yes. As users of administrative support services, they must be considered in the redistribution of costs.

INTERNATIONAL ORGANIZATIONS

Last week Representative Neal Smith and I signed off on the reprogramming with regard to the Contributions to International Organizations account. That reprogramming includes setting aside $44,000,000 of the $144,000,000 in the case of the UN and the full $25,000,000 for FAO until it is certified that they have implemented budgeting and administrative reforms.

Question. What are the chances that the UN and FAO will be certified to receive the amounts held back?

Answer. It is still too early to determine whether the UN and FAO will be certified to receive the amounts held back from FY 1988 funds. With regard to the UN, together with Ambassador Walters, we are continuing our consultations with the Secretary General and other member states to effect the changes required. If there is no change, or if the change is insufficient to meet the legislative requirements, the $44 million will not be paid. With regard to the FAO, the current situation may change in the near future with the outcome of the joint session of the FAO Program and Finance Committees, scheduled to begin on May 16 in Rome. We are somewhat encouraged by the more positive tone taken recently by the FAO Director General in response to our letter outlining our expectations for reform in the FAO. However, as with the UN, we will need more than the organization's expressions of good intentions to justify paying the $25 million currently held back. We are looking for concrete action.

Question. In approving the reprogramming we went along with the Department's allocation of 100 percent of the 1988 requirements for all but 8 of the international organizations. There is only 2% growth for this account overall in fiscal 1989. Will you be able to meet all these organization's requirements in full in 1989?

Answer. Based on our 1989 budget request there will be an additional five international organizations that will not

receive 100% of their requirements. They are The International Atomic Energy Agency, The International Civil Aviation Organization, The World Health Organization, The World Meteorological Organization and The Organization for Economic Cooperation and Development.

Question. Please provide a listing displaying each international organization, the amount allocated by the reprogramming and the amount requested for 1989.

Answer. Below is a listing displaying each international organization, the amount allocated by reprogramming and the amount requested for 1989.

CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS
(dollars in thousands)

Organization	FY-1988 Reprogramming	FY-1989 Request
UN and Affiliated Agencies:		
Food and Agriculture Organization	$ 25,000	$ 25,000
International Atomic Energy Agency	34,212	35,160
International Civil Aviation Organization	7,678	7,891
International Labor Organization	25,394	26,097
International Maritime Organization	655	890
International Telecommunications Union	5,286	5,235
United Nations	144,000	144,000
United Nations Industrial Development Organization	11,722	12,047
Universal Postal Union	945	954
World Health Organization	62,855	64,596
World Intellectual Property Organization	813	833
World Meteorological Organization	5,758	5,918
Subtotal	$324,318	$328,621
Inter-American Organizations:		
Inter-American Indian Institute	104	104
Inter-American Institute for Cooperation on Agriculture	10,344	10,631
Organization of American States	34,887	35,853
Pan American Health Organization	30,757	31,609
Pan American Institute of Geography and History	331	331
Pan American Railway Congress Association	25	25
Subtotal	76,448	78,553
Regional Organizations:		
Colombo Plan Council for Technical Cooperation	10	10
North Atlantic Assembly	638	683
North Atlantic Treaty Organization	31,174	33,053
Organization for Economic Cooperation and Development	33,470	34,397
South Pacific Commission	834	842
Subtotal	66,126	68,985
Other International Organizations:		
Bureau of International Expositions	22	22
Customs Cooperation Council	1,828	1,875
General Agreement on Tariffs and Trade	7,044	7,129
Hague Conference on Private International Law	60	81
International Agency for Research on Cancer	851	1,049

International Bureau of the Permanent Court of Arbitration	11	11
International Bureau of the Publication of Customs Tariffs	85	88
International Bureau of Weights and Measures	554	587
International Center for the Study of the Preservation and Restoration of Cultural Property	454	361
International Coffee Organization	551	590
International Cotton Advisory Committee	150	175
International Hydrographic Organization	59	59
International Institute for the Unification of Private Law	85	96
International Jute Organization	47	50
International Lead and Zinc Study Group	30	36
International Natural Rubber Organization	194	--
International Office of Epizootics	63	67
International Organization for Legal Metrology	75	89
International Rubber Study Group	57	57
International Seed Testing Association	6	7
International Wheat Council	--	298
Interparliamentary Union	512	665
Maintenance of Certain Lights in the Red Sea	77	46
World Tourism Organization	293	309
Subtotal	13,108	13,747
Total	$480,000	$489,906

Question. The justifications indicate that our cumulative arrearages are more than $521,000,000. In what organization is our vote threatened due to our arrearages?

Answer. Our most significant loss of vote threat is in the United Nations General Assembly where, if present payment patterns continue, we could lose our vote in 1990. Other organizations where we could lose our vote include the FAO in 1991; UNIDO in 1995; and the ILO and ICAO in 1996.

Question. Please display the $521,000,000 in arrearages by organization.

Answer. The $521,000,000 in arrearages by organization is displayed below.

Contributions To International Organizations
Arrearages Through FY-1989
(dollars in thousands)

UN and Affiliated Agencies:

Food and Agriculture Organization	$ 82,091
International Atomic Energy Agency	7,465
International Civil Aviation Organization	1,951
International Labor Organization	27,831
International Maritime Organization	73
United Nations	278,736
United Nations Industrial Development Organization	18,349
World Health Organization	27,767
World Intellectual Property Organization	293
World Meteorological Organization	3,884
Subtotal	$448,440

Inter-American Organizations:

Inter-American Indian Institute	3
Inter-American Institute for Cooperation on Agriculture	6,418
Organization of American States	41,167
Pan American Health Organization	16,518
Pan American Institute of Geography and History	40
Pan American Railway Congress Association	1
Subtotal	64,147

Regional Organizations:

Organization for Economic Cooperation and Development	2,868
South Pacific Commission	437
Subtotal	3,305

Other International Organizations:

Bureau of International Expositions	10
Customs Cooperation Council	2,193
General Agreement on Tariffs and Trade	2,172
Hague Conference on Private International Law	16
International Agency for Research on Cancer	61
International Bureau of the Permanent Court of Arbitration	7
International Bureau of the Publication of Customs Tariffs	32
International Bureau of Weights and Measures	167
International Center for the Study of the Preservation and Restoration of Cultural Property	30
International Cotton Advisory Committee	31
International Institute for the Unification of Private Law	35
International Lead and Zinc Study Group	4
International Office of Epizootics	28
International Organization for Legal Metrology	25
International Rubber Study Group	5
International Seed Testing Association	4
International Wheat Council	277
Maintenance of Certain Lights in the Red Sea	11
Subtotal	5,108
Total	$521,000

ASIA FOUNDATION

Question: Why is the Department requesting $8,000,000 for the Asia Foundation, a decrease of $5,700,000 from the 1988 level, particularly since the Department on March 29th testified that the Asia Foundation "has made and continues to make important contributions to Asian foreign policy interests in Asia and the Pacific?"

Answer: The Department's request for a decrease from the 1988 funding level is not because the Department has become dissatisfied with the Foundation's programs. To the contrary, the Department continues to hold the Foundation in high regard. Rather, the requested decrease

reflects the Department's efforts to comply with the budget summit agreement, and would bring the Foundation's funding level more in line with the requested levels of previous years.

Question. What will be the impact of this reduction (41.6%) on the Foundation's activities?

Answer: This reduction would obviously require the Foundation to reduce the level of its activities. Since about 85% of the Foundation's appropriated funding is used for grants, we would expect that most of the reduction would fall in that area. The Foundation and not the Department, however, determines which projects it will fund. Therefore we cannot be more precise as to which countries or which types of programs would feel the impact of the reduction.

Question. I understand that the Foundation has plans to expand into the South Pacific in FY 1989. What specifically are those plans, how much in additional funds will such an expansion require and could the expansion be undertaken at the proposed level of funding?

Answer. The Foundation plans to expand its programs in the South Pacific subject to the availability of funds.

The Foundation would like to open an office in the region and has estimated first year costs at between $200,000 to $250,000.

The Foundation would also like to extend or expand its programs in Papua New Guinea, the Solomons, Tonga, Vanuatu, Western Samoa, Fiji, Tuvalu, Kiribati and the Cook Islands. These programs include:

Increased shipment of American books and journals and library training. $150,000

Increased number of scholarships, fellowships and internships. $150,000

Programs to improve the administration of justice. $100,000

Programs to enhance representative government. $200,000

Education development. $100,000

Conference on the South Pacific and U.S. interests in cooperation with the University of California at Berkeley and the Pacific Forum in Honolulu. $50,000.

The Foundation could undertake this expansion into the South Pacific at the proposed level of funding if it made offsetting reductions to other programs. However, neither the Foundation not the Department os State would consider it wise to sacrifice existing, beneficial programs to start new activities.

Question. What additional activities did the Foundation undertake in FY 1988 with the increase of $4,900,000 that it received above the FY 1987 funding level.

Answer. The Foundation stated that it used this additional funding to:

Continue into the third year its programs in the Philippines, which include: civic education, agrarian reform, labor-management relations, the administration of justice, the legislature, civil-military relations, human rights, and government administration. Budget: $2 million.

Increase its programs in Korea to support local democratic institution-building, the role of women in industrial labor, and human rights. Increase: $300 thousand.

Add new programs in Thailand, i.e. voter education and improving the administration of local elections; further strengthen the legislative administration program; and implement a program to give military officers graduate studies in the role of the military in a democratic society. Budget: $150 thousand.

Add new programs in Taiwan to further its democratic development. Increase: $100 thousand.

Add new programs in Pakistan for judiciary and legislative development. Increase: $250 thousand.

Add new programs in the South Pacific in the areas of law, civil and foreign service, legislatures, scholarships, dissemination of publications, and scholarly interchanges. Increase: $200,000.

Pacific economic cooperation. $300 to $350 thousand.

In Asian countries other than those mentioned above, the Foundation will focus on the judiciary, human rights, the electoral process, legislative development, government administration, and the role of private and business organizations in national development. $500 thousand.

Young leaders program, especially the military, whereby the beneficiaries receive funding to attend conferences and seminars. $100 thousand.

Books for Asia program. $100 thousand.

Regional programs, e.g. human rights and law-related programs. $150 thousand.

Special exchange activities. $150 thousand.

Held in reserve: $550 thousand.

Question. In Secretary Clark's statement there is a reference to plans for further efforts in support of the political liberalization taking place in Taiwan. What

have you done in this regard in FY 1988 and what are your plans for FY 1989?

Answer. Nearly half of the newly elected legislators in Taiwan have been directly exposed to the American Congressional system through seminars organized and funded by The Asia Foundation since 1983. The fourth and most recent group to visit Washington came in February 1988. The Foundation funded in 1988 the new Library and Information Research Service, adapted from the Congressional Research Service. It funded an international conference in Taiwan on constitutional law, focusing on the rights of free speech and free assembly. During FY 1988 the Foundation will fund the first in a series of programs with the Control Yuan, the branch of government dealing with; oversight, auditing and impreachment. The first program will feature seminars in Washington with American counterparts. In the non-governmental sector, the Foundation is supporting programs to strengthen the professionalism of diplomatic reporters and editorial cartoonists, the women's meovement, and literary criticism as a means of fostering free expression.

In FY 1989 and beyond the Foundation will continue its support of the legislative, judicial and control branches. In the non-governmental sector, support will go to organizations in the fields of human rights, environment, and women's affairs. New lines of programming are developing in labor relations, election processes, and grassroots representative government.

Question: Also Secretary Clark's statement indicates that the total private support for the foundation in FY 1987 roughly equaled the total received from public sources. Please provide a list of the amounts received from public sources and a list of the total amount of donations from the private sector in cash and in contributions-in-kind for FY 1987?

Answer: In FY 1987 the Foundation received the following amounts from the public sector (USG):

. General Grant	$ 8,800,000
. AID special support grant*	3,137,000
. U.S. Information Agency	230,000
. Japan-U.S. Friendship Fund	53,000
Total	$12,220,000

Private Sector input from all sources, including income, cash gifts, services, and contributions-in-kind, totalled $13,218,000.

. Income (from Endowment)	$ 276,000
. Cash	970,000
. Services	257,000
. Contributions-in-kind	11,715,000**
Total	$13,218,000

NOTE: the above does not include actual and estimated

value of Asian matching contributions to TAF projects.

* Roughly 75% for the Foundations' Population program in Bangladesh
** Provisional figure

Question: In Secretary Clark's statement on page six, it states that recent audits and evaluations of the Foundation's financial affairs and Administation of Public Funds indicate that its salaries, housing and other general and administrative costs are considerably below those of official U.S. agencies and U.N. affiliated organizations. Please provide us some more details with regard to that statement, and would you submit copies of those reports as soon as possible to this Subcommittee?

Answer: In its report to the Congress in February 1983, the Congressional Research Service's Foreign Affairs and National Defense Division said:

> "For purposes of comparison, the Foundation's infrastructure expenses--salaries, office and housing standards, and general administrative and operation cost--are less costly than those of either State, AID and USIA or even the more costly U.N. agencies functioning in Asia. A State Department Audit Report issued in May 1982 was highly positive in its tone and finding, both with regard to management practices and policy relevance."

In 1982 and again in 1984, the Office of the Inspector General of the Deparment of State conducted audits of the Asia Foundation. The first was a full scale audit "reviewing the Foundations's financial operations, compliance with grant terms and applicable regulations, resource management and results of its progam". The audit conducted by three inspectors was performed in the home office and selected field offices in East, Southeast and South Asia over a four month period. Among the findings were"

> "TAF management concerns itself with the need to conserve resources and to reduce overhead whenever possible. For example, reacting to more austere budgets, the Foundation reduced total staff from 320 in 1967 to 139 in 1981. Similarly, office space at the home office was reduced to suit the decreased staff. Both home and field offices appear to be appropriately staffed and facilities and equipment adequate without being ostentatious. The inspectors noted no instances of wasteful or otherwise questionable expenditures."

The 1982 full scale audit also noted that in its field review AID officers commented that "The Asia Foundation's management and reporting was superior to compatable private voluntary agencies", and that "one gets what one pays for" from the Foundation.

In its 1984 audit, the Inspector General's report described The Asia Foundation's management and administration in the following manner:

> "TAF is staffed by quality personnel who carry out its business efficiently and effectively. Its reports are accurate and reliable, reflecting a high degree of dedication, skill and professionalism. Management supplies the Foundation's resources in a conservative and cost-conscious manner. It is well versed in Government regulations pertaining to grant administration and conscientiously complies with them."

In 1987, the Agency for International Development evaluation report on the Foundation's administration of its AID-funded human rights programs said:

> "Experience in reviewing PVO grantee proposals seems to indicate that if a proposal states an overhead rate based on total direct costs of 50% or above, the technical reviewer will consider that a high price for administrative costs". "A review of available financial records show that TAF overhead rates, as a percentage of total direct costs, are in the low twenty percentile range..." "The conclusion is that RAF overhead rates are reasonable for the highly professional job of managing and reporting on activities financed by AID."

On April 1, 1987, the Department of State witness, in his testimony before the House Subcommittee on Appropriations for Commerce, Justive, State, nd Judiciary and Related Agencies made the following comment:

> "I would like to stress that The Asia Foundation is known as a cost-conscious organization with an extremely favorable cost-benefit ratio. Its salary scale and infrastructure costs are largely below those of U.S. official and multilateral organizations. Relatively speaking, The Asia Foundation budget, which is insignificant when compared to others, has a tremendous amount of impact for the number of dollars expended."

(CLERK's NOTE: The evaluation report on "AID Human Rights Programs in the Asia Near East Bureau of the Agency for International Development" which was submitted for inclusion in the record at this point has been deleted. It will be retained in the subcommittee files.)

SECURITY EXPENDITURES

This Subcommittee has been supportive as we can be in the efforts to upgrade security overseas. Accordingly, I am concerned about critical reports on how the security funds are used.

<u>Question</u>. Last year Representatives Mica and Snowe had an

op-ed piece in The Washington Post that stated that 204 aides accompanied the Secretary on his trip to China last year, at a cost of $5,000,000. We have Mr. Kennedy's report that there were only 142 governmental personnel on that trip. Perhaps they counted the thirty-five press personnel but they only total 177 so I don't know where they get 215.

However, among these 142 officials were 96 security personnel. That seems excessive in a controlled country like China.

Mr. Lamb, your deputy was in China with our staff and I believe he told you that the most violent act they witnessed was a street fist-fight among Chinese in Beijing. How was the determination made that the Secretary's trip required 96 security agents?

Answer. Generally, in the case of foreign travel involving more than one stop, two "jump teams" are established to leapfrog destinations which the Secretary will visit. This is, of course, dependent on airline schedules. This was not entirely possible on the China trip. Many of the stops involved could not be reached in sufficient time by domestic Chinese airlines, and several stops were not even serviced by an airport. Because of this, it was necessary to dedicate a team of agents to certain stops, and those stops alone. There was also a large number of sites in different cities in short time frames. For example, in one twenty-four period, the Secretary flew to a Chinese city from Beijing, drove thirty minutes to another city for meetings, then drove two hours to visit a third site. After the third site, he drove another thirty minutes to a hotel for a State banquet. After overnighting at the same hotel, he drove to a train station for a three hour train ride to the airport; he then boarded the plane and flew onward to Shanghai where he had a full schedule of afternoon and evening events. There were over eight stops involved in that twenty-four period, and only two were accessible by air. The visit to China was one stop of a more extensive visit to Asia. Prior to entering China, the Secretary visited another Asian country, and visited two additional countries upon leaving China. The visit also placed additional requirements on the Secretary's Detail in other respects. Included in the total number of personnel are additional security technicians to help the Secretary and his staff operate in a hostile intelligence environment.

Each stop not only generated logistical problems, but each had to be approached in a different manner from a security perspective. For instance, Shanghai has a large Palestinian student population. During the 1974 visit of President Reagan, the Chinese authorities were sufficiently concerned over their presence in Shanghai that they reportedly sent a significant number of them on a "field trip" during the President's visit. There was also a much larger Chinese Public Security Bureau presence during the Secretary's visit there.

All of this must be factored into personnel requirements. In recent months, a potential assassin armed with an M-16 and 400 rounds was apprehended on New

York Avenue in the District of Columbia, and a car bomb was discovered 300 yards from where the Secretary was staying in Israel. Protective requirements are tailored to the situation whenever possible, but the basic overriding concern has been and will continue to be that the Secretary of State be able to conduct the foreign relations of the United States in the most secure environment possible, free from terrorist or hostile intelligence threat.

Question. In March I went to Latin America. In Managua I was surprised when they sent a white armored Cadillac to pick me up. That certainly must be the only white Cadillac in Managua. Isn't that a little conspicuous in a hostile place?

Answer. The host government or anyone from a terrorist organization has the intelligence and capability to easily determine what vehicles the embassy uses in general and which vehicle the Ambassador uses in particular. Hence, the only real threat for the white Cadillac would be from a spontaneous reaction from a citizen on the street, a situation that is not considered to be a problem.

Question. Mr. Lamb, last July 31st the Department reported that only $41,052,000 of the $127,000,000 appropriated for 1987 to Salaries and Expenses for security was obligated. Admittedly there was an additional $57,000,000 committed. However, we have to marvel at your staff, because in two months they managed to obligate all but $159,000 of the appropriation. In fact, 75% of the 1987 obligations were put on the books in September. That was remarkable, but why did we wait until September to spend the full $3.5 million the security vehicles?

Answer. The Department obligated $81,220,000 or 64% of funds appropriated to Salaries and Expenses for security in the month of September 1987. Concerning security vehicles, negotiations with the vendor were under way for several months prior to September. These negotiations were resolved in September and the $3.5 million obligated.

Question. With regard to the 1988 funds, your report for February 29th shows only $35,683,000 of the $135,308,000 committed. Is this due to the lateness of the obligations last year, so that we can expect a big rush at the end of 1988 as well?

Answer: The lateness of obligations last year is not responsible for the rate to which security funds have been committed this year. As of May 10, 1988, DS has committed approximately $82,255,000 or 61% of the $135,308,000 appropriated.

The Department does not anticipate a "big rush" to commit funds at the end of FY 1988.

Question. Please provide, for the record, a month-by-month plan for committing the $135,308,000 in fiscal 1988.

Answer.

Committed/Obligated thru May 10	$82,255,000
Planned Commitments:	
May 11 thru May 31	3,553,000
June	18,130,000
July	12,044,000
August	12,096,000
September	7,230,000
Total	135,308,000

Question. At the Department's Security Day a new bomb detection device was featured. I am advised that the Department planned to order 15 of these devices in 1989, but the OMB cut it to 12. Within the funds available for 1988 and 1989, can't we find enough to proceed with the full procurement of these devices?

Answer. The Department will purchase three prototype units in 1988. Due to the strict fiscal limitations under which we are currently operating, it is not possible to purchase additional devices this fiscal year without adversely impacting other equally important programs. Contingent on funding availability, we do intend to purchase an additional 14 units, seven in FY 1989 and seven in FY 1990. The schedule of procurement was not influenced by any OMB action.

MARINE SECURITY GUARDS

Question. We now have a 6 month tour length for the Marine Security Guards in Moscow and Leningrad. While this benefits security it is inefficient because the Marines spend a month or more learning their jobs. What is your long-range position on Marine tour lengths in the Soviet Union?

Answer. The OIG has recommended that the 6 month tour for MSGs in Moscow and Leningrad be abolished. His inspections found the 6 month tour of duty to be inefficient and suggested a 12 month tour to be more realistic. The Department is consulting with the Marine Corps on the length of tour issue for Marines in Moscow. There has been no decision taken to change the present six-month tour.

Question. In the Communist bloc embassys, security is not a physical defense against terrorists or thieves, but rather a resistance to all forms of espionage. It has been suggested that embassy security in such countries might be better performed by retired military personnel, similar to the British system. Retirees bring maturity and understanding to their security duties that a 20 year old cannot match. Retirees will also often bring with them a working spouse who can add to the embassy's capabilities without adding to the staff ceiling.

Answer. We must review the possible employment of cleared American guards other than Marines on a case by case

basis. In circumstances where the post is isolated (Guangzhou), or there is a vulnerability to U.S. military personnel (Panama), and/or a reluctance of the host government to approve the assignment of Marines (Maputo), it may be prudent to use cleared U.S. personnel on a limited basis. This will be especially important if our needs for guards increase, and the Marines are unable to support us due to manpower limitations. But we do not plan a wholesale replacement of Marines on a worldwide basis.

Question: We have a similar problem in China. There is interest in having marines in Shanghai but apparently the only suitable apartments available are luxury three bedroom units renting for $6,500 a month. It would cost us $13,000 a month just to house 6 watchstanders and they would be 40 minutes away from the Consulate in day time traffic. If we are going to have marines in Shanghai, shouldn't we put them in the nearby present diplomatic housing?

Answer: From March 15 to March 22, 1988, two representatives from the Marine Corps and the RSO from Beijing travelled to all China posts to determine the suitability and state of readiness of each Consulate to implement a Marine Security Guard detachment.

In Shanghai, two housing locations were deemed acceptable by the RSO and Marine Company Commander as a temporary situation. One is the Longbai complex mentioned in the above question as the "diplomatic housing". The second choice is that identified in the foregoing question as luxury units. Both locations would place the Marines approximately 30 minutes from the Consulate during peak traffic periods and 15-20 minutes away at other times. The react time was considered marginally adequate and considered satisfactory only based on the low physical threat level of Shanghai and the current non-availability of quarters in closer proximity to the Consulate.

The visiting team strongly urged the post to continue the search for suitable quarters in a single unit and in closer proximity to the consulate. No decision has yet been made on housing the Marines in Shanghai and the post is continuing to search for closer and less expensive alternatives.

Question. As you know, the Marines in China cannot wear their uniforms outside of our buildings, such as going to-and-from their quarters to their posts. As with Russia, I think this might be the place to use retired military, but if we have Marines there, can't we get the Chinese to relax on them wearing their uniforms between their quarters and their posts?

Question. Are there other posts where MSGs cannot wear their uniforms to and from their duty stations? If so, where?

Answer. Wearing the uniform by the MSG between his/her quarters and place of duty is really not a point of contention. There are many posts where MSGs do not wear

the uniform from quarters to post for security reasons, and we provide a change room in the Chancery. There are several posts where the Marine House is located on the Embassy compound, where wearing of the uniform is not a problem (Moscow/Kabul). At all posts where Marines are assigned, host government approval is required for the wearing of the uniform and carrying of arms even on U.S. diplomatic property.

Question. The quality and timeliness of the interrogation in the Bracey case are key to our understanding of the compromises that have occurred in Moscow. Concentration on the Naval Investigative Service investigation has overshadowed the prior investigation of Bracey by an investigator of the Diplomatic Security Service. For instance, after Bracey was sent back from Moscow - and before Lonetree came forward - it was recommended that Bracey be interrogated by State's Counterintelligence personnel and that the case be sent to the Naval Investigative Service. I am informed that after State interrogated Bracey the file was not passed on the NIS, and as a result, the NIS didn't get moving until Lonetree came forward.

A) Who was the State security officer who interrogated Bracey after he returned to the United States?

Answer. Special Agent Mark Moretti interrogated Cpl. Bracey after he returned to the United States.

B) Am I correct that he was told to pass the results of his investigation on to the NIS and didn't? If so, why didn't he?

Answer. We understand that Mr. Moretti's supervisor did ask that the NIS be informed of the case. But he did not do so and his supervisor apparently did not follow up.

C) What is his current status?

Answer. Mr. Moretti is currently attending language training in preparation for his onward assignment to a subordinate security officer position in Tunisia.

Question. There is a conflict between the Commandant of the Marines and the Secretary of Defense about female personnel as MSGs. While the Commandant concedes that female Marines could be employed in defensive roles, he apparently doesn't view MSG duties as defensive. However, I am more concerned about the additional cost of providing for female MSGs. I could see how they could be accommodated in a large post, but at a post like Shanghai, where they are thinking of bunking them 3 to an apartment, would not the additional costs of housing females in small posts be prohibitive?

Answer. It is our understanding that woman Marines will be assigned in small numbers. The Department is not aware of any ceiling on the number of women to be assigned. MSG assignments are the responsibility of the Marine Corps. We will be asked to concur in those assignments. One of

the normal considerations in the assignment of women will be housing. This was not a problem in 1979 when women Marines served in this program for approximately 30 months, and we do not anticipate any significant additional costs associated with this program.

PROTECTION OF FOREIGN MISSIONS AND OFFICIALS

Question. According to the Department's Budget in Brief, we provide protection for a major international airline office in New York and intermittently to other international airlines. Which airlines do we protect and when did an airline become either a mission or an official?

Answer. Currently, the Department of State has authorized protection of two airlines, El Al Airlines (Israeli) and Aeroflot Airlines (USSR). There is a fixed post at the El Al Airlines terminal at JFK Airport in New York, the El Al Airline ticket office in Manhattan, and also the Aeroflot ticket office in mid-town Manhattan. An airline can only be considered a "foreign mission" if it is owned by a foreign government. According to the Foreign Missions Act, section 4302,(a)(4) "foreign mission" means "any mission to or agency or entity in the United States which is involved in the diplomatic, consular, or other activities of, or which is substantially owned or effectively controlled by-

(A) a foreign government..."

Question. What is the authority for providing such protection?

Answer. As stated above, by authority of the Foreign Missions Act, the Department of State published Guidelines on Protection of Foreign Missions in the Federal Register/Volume 52, No. 72/22 CFR 2a.2 Definitions:

(c) "Foreign mission" or "foreign diplomatic mission" means: (1) Any mission in the United States involving diplomatic, consular, or other governmental activities of a foreign government or an organization representing a territory or political entity which has been granted diplomatic or other official privileges and immunitites under the laws of the United States,

(j) Determinations with respect to the meaning and applicability of terms used in the Foreign Missions Act and under these regulations are committed to the discretion of the Secretary of State.

Question. We find no mention in the previous justification of plans to protect airline offices. When did the Department decide to expand into this as we would have thought this is a function of the local police?

Answer. Since the Department of State began administering this program in October, 1984, intermittent coverage by law enforcement authorities has been afforded to government owned airlines which have suffered any excessive threats of violence as determined by the Department of State.

The payment for this protection is covered by the Department of State because it is considered extraordinary protection coverage and local police do not have sufficient manpower or budgets to place a fixed police post at an airline office without reimbursement.

Under the Foreign Missions Act, section 4314(b) Requirement of extraordinary circumstances "The Secretary may provide funds to a State or local authority for protective services under this section only if the Secretary has determined that a threat of violence, or other circumstances, exists which requires extraordinary security measures which exceed those which local law enforcement agencies can reasonably be expected to take".

Question. How much is spent protecting non-government offices?

Answer. We do not consider either El Al or Aeroflot as "non-government" offices, . They are both government owned enterprises, therefore, we have spent no monies protecting non-government offices. The fixed post at the Aeroflot airlines office is on a 24 hour basis. The fixed post at the El Al office is during business hours on Monday-Friday. On an intermittent basis a fixed post is established at the El Al terminal at JFK during scheduled arrivals and departures of aircraft. At one time El Al crews were afforded protective security escort services from JFK Airport to their hotel. This service has been discontinued.

Question. What are the 7 quasi-diplomatic establishments we protect?

Answer. The term quasi-diplomatic is not one that has any legal or policy meaning. Rather, there does exist in the United States a large number of miscellaneous, i.e., non-diplomatic, foreign government establishments. The Department of State in the past has provided protection to only a small fraction of this total number. As of today, we are protecting the airline establishments of El Al and Aeroflot. In the past, intermittent coverage has been afforded to TASS (Soviet newspaper office), AMTORG (official Soviet trade association), Air Canada, Air India, and the official airline of Turkey.

SECURITY

Question. It seems that the security considerations have been used in some cases as a rationale for having residences at overseas locations be widely disbursed and other times security considerations have been used to as basis for obtaining collocated residences. What is State's security policy relevant to whether U.S. employees' residences should be spread throughout the local community or be concentrated in certain spots where added protection could be provided? Why the disparity in approach?

Answer. The Department's policy regarding the location of residences for its personnel living in foreign countries is to try to cluster them in apartment buildings, or

housing areas in more secure neighborhoods. This improves the performance of our emergency reaction units and, where necessary enables us to provide a security perimeter around the area.

Due to the particular form of terrorism threat faced in some countries, such as car bombings, concentration of many official Americans in compounds is discouraged since it provides too inviting a target. There are other factors as well which must be taken into consideration when determining which type of housing arrangement is best for a particular area from a security standpoint.

Question. Does the State Department now believe that the problems with security guards at overseas posts has been rectified?

Answer. We are satisfied with the recent changes which we feel will improve a well established program. The improvements in the selection process, the assignment of a psychologist to the MSG Battalion, the improved screening procedures and the improved training, all have contributed significantly to the development of a better Marine Guard. We are confident that the Marine Corps will continue to provide the Department with individuals who are highly trained to support our efforts to provide a secure environment at our overseas missions.

Question. State has established physical security standards for its overseas posts based on an assessment of the threat level at each post. What are the most important factors used in making that assessment?

Answer. Physical security standards for perimeter protection, public access control, forced entry and ballistic protection have been developed for application at all foreign service posts. These standards are intended to provide all posts with a basic level of protection. At posts where there is a high threat, additional physical security measures are provided. These additional measures can include anti-rocket screens, bunkers, etc. Due to our limited money in the program the threat level at a post is a prime factor in determining the priority order for upgrading a post.

The following factors are used in assessing the threat of each foreign service post:

Repeated terrorist attacks have been directed against U.S. personnel and facilities.
Open warfare, anarchy, or widespread insurgency with one or more factions targeting U. S. facilities or personnel.
Demonstrated inability or unwillingness of host country to effectively protect U.S. personnel and facilities.
High crime rate accompanied by actual incidents of personal violence, directed against foreign elements and/or the U.S. community.

Question. How may posts do not meet established standards now? Please name them.

Answer. Only new office buildings currently in the design stage will meet all of our established standards. No existing facilities at our overseas posts meet all of our standards, i.e., 100 foot setback, blast, perimeter, public access controls, forced entry and ballistic resistant standards. This is due primarily to the fact that existing structures cannot be upgraded to meet setback and blast resistant standards.

Since 1985 we have completed major security upgrade projects at 167 facilities located at 70 posts, bringing them as close as possible to perimeter, public access control, forced entry and ballistic standards. Plans for security enhancements at an additional 35 facilities have been completed, and are now, or will be within the next few months, under construction. This is a significant achievement which reflects our commitment to improving security at our diplomatic facilities overseas. However, we still have a long way to go. Our current five year program plan lists 89 additional posts which require major security upgrades to bring them as close to standards as possible. A list of these posts is attached.

Posts requiring major security upgrades to bring them as close to standards as possible

Post		Project*
Panama	:	PAC/PER
Manila	:	PAC/PER
Cebu	:	PAC
Dhahran	:	PAC
Kabul	:	PAC/PER
Barranquilla	:	PAC
Chaing Mai	:	PAC/PER
Barcelona	:	PAC
Moscow	:	PAC
Grenada	:	PAC/PER
Mbabane	:	PAC
Antananarivo	:	PAC/PER
Addis Ababa	:	PAC/PER
Durban	:	PAC
Tokyo	:	PAC/PER
Fukuoka	:	PAC/PER
Sapporo	:	PAC/PER
Copenhagen	:	PAC/PER
Auckland	:	PAC
Wellington	:	PAC/PER
Reykjavik	:	PAC/PER
Udorn	:	PAC/PER
Brisbane	:	PAC/PER
Melbourn	:	PAC/PER
Sydney	:	PAC/PER
Montevideo	:	PAC/PER
Buenos Aires	:	PAC/PER
Dublin	:	PER
Surabaya	:	PAC/PER
Jakarta	:	PAC/PER
Medan	:	PAC/PER
Merida	:	PAC/PER
Contonou	:	PAC/PER
Ouagadougou	:	PAC/PER

Post		Project
Bamako	:	PAC/PER
Port Louis	:	PAC/PER
Yaounde	:	PAC/PER
Douala	:	PAC/PER
Kaduna	:	PAC/PER
Madrid	:	PAC/PER
Paris (A & OECD)	:	PAC/PER
Songkhla	:	PAC/PER
Rangoon	:	PAC/PER
Brazzaville	:	PER
Fort de France	:	PAC/PER
Brazilia	:	Bldg Ext
Vatican	:	PAC/PER
USUN	:	PAC
Nassau	:	PAC/PER
Kiev	:	PAC/PER
Perth	:	PAC/PER
Curacao	:	PAC/PER
Kolonia	:	PAC/PER
Koror	:	PAC/PER
Majoro	:	PAC/PER
Havana	:	PAC/PER
Singapore	:	PAC/PER
Hong Kong	:	PAC/PER
Canberra	:	PAC/PER
Helsinki	:	PAC/PER
Kuala Lumpur	:	PAC/PER
Monterrey	:	PAC/PER
Antwerp	:	PAC/PER
Mexico City	:	PAC
Bucharest	:	PER
Strassbourg	:	PAC
Marseilles	:	PER
Kigali	:	PAC/PER
Montreal	:	PAC
Antigua	:	PAC/PER
Lusaka	:	PER
Frankfurt	:	PER
Lubumbashi	:	PER
London	:	PER
Port au Princ	:	PER
Islamabad	:	PAC
Nouakchott	:	PER
Victoria	:	PAC
Toronto	:	PAC/PER
Ulan Bator	:	PAC/PER
San Salvador	:	PER
Abidjan	:	PAC/PER
Malabo	:	PAC
Moroni	:	PAC/PER
Kinshasha	:	JAO PAC
Caracas	:	PER
Paramaribo	:	PER
Recife	:	PAC/PER
Santiago	:	PAC

*Key: Bldg Ext - Building Extension
JAO - Joint Administrative Office
PAC - Public Access Control
PER - Perimeter

Question. To meet State security standards, should the older but more elegant and venerable buildings be abandoned and be replaced? Do security factors outweigh other considerations? Please explain.

Answer. Our facilities abroad serve as the base from which our personnel conduct diplomacy. Our older facilities do not meet all of our security standards, and simply can not be upgraded to meet them. For example, it is impossible to meet our 100 foot setback standard at most of our existing facilities (only 29 posts have buildings that meet this standard), or to meet blast standards at any existing facility. Security is a vital concern, but we must also consider that we are abroad to represent the interests of the United States. There is no question that many of our older facilities should be replaced. The safety of our personnel must take precedence over the age or elegance of a facility. Taking into account threat, vulnerability, ability of host nation security forces to provide protection, and the limitations on upgrading the security of the facility, the determining factor must be whether or not we can reasonably expect an existing facility to provide a safe work environment from which business can be conducted. If the answer is no, the facility should be replaced.

Question. The Director of FBO has been quoted in the newspaper as saying that the Omnibus Diplomatic and Anti-Terrorism Act of 1986 "almost doubles" the price of any new Embassy. Does the Department believe the cost outweighs the risks in many cases? Does the Department want some part of that law rescinded because it causes too much to be spent on things the Department does not believe are necessary?

Answer. The Department does not believe that the costs outweigh the risks nor does it want some part of the law rescinded. Increased costs have resulted from the requirement to utilize U. S. contractors, compliance with a strict construction security program and improved security standards. The Department is providing necessary security to our construction sites overseas and domestically. Funding is needed for our mandated present and future projects. The proposed FY 1989 budget for the Bureau of Diplomatic Security's Division of Construction Security will have a significant shortfall. In future years, these costs will naturally escalate in proportion to inflation and the number of new construction starts.

Question. Many foreign service officials have ranted that security expenditures should be cut and other State activities be given more money. Do you believe that reprogramming security funds is appropriate?

Answer. No, the Department does not believe that it would be appropriate to reprogram security funds. The current FY 1989 budget request includes a total of $1.799 billion in the Salaries and Expenses (S&E) appropriation, of which only $303 million, or 17%, is earmarked for Diplomatic Security. Also, the FY 1989 S&E request for regular operations reflects an increase of $94 million or 7 percent over the FY 1988 estimate, while there is no

overall increase for Diplomatic Security programs. Accordingly, any reduction of the proposed $303 million would seriously jeopardize the progress that has already been made under the global program initiated by the 1986 Diplomatic Security Supplemental and the Omnibus Diplomatic Security and Antiterrorism Act of 1986 to enhance all aspects of security for the domestic and overseas activities of the Department of State and the foreign affairs agencies.

Question. Is it true that the Department is spending several million dollars to improve physical security at the State Department headquarters including new special access badges? Is it also true that retirees, members of the foreign press, spouses and dependent children of Foreign Service Officers, and others are being given such badges? If so, why?

Answer. Yes, the Department is spending several million dollars for physical security improvements at the Main State building. Included in the enhancements is a new automated access control system which utilizes computer readable building passes. This past February, the Department modified its building pass policy whereby retirees are no longer issued passes. This new policy also eliminated issuance of building passes to neighboring Naval Medical Command personnel. Building passes are issued to a limited number of members of the foreign press. Correspondents representing Warsaw Pact countries are not eligible for building passes. Holders of press building passes must have a favorable National Agency Check completed. Additional security is provided by restricting movement of members of the press within the building. Spouses of employees are issued building passes for access to Department facilities during business hours only. Dependent children are not issued building passes. Employees' spouses are provided building passes in order to facilitate their conducting official business in conjunction with assignments abroad, e.g. to arrange for shipment/storage of household effects, visit the Department's Overseas Briefing Center, undergo medical clearance procedures, etc.

Question. We understand that there have been several internal State Department studies done on the Diplomatic Courier Service including security issues. Can you summarize the basic problems that were found, without getting into anything classified?

Answer. In late 1986, a classified operational review of the Diplomatic Courier Service was conducted by the Bureau of Diplomatic Security. The study, which has not been disseminated outside of the Department, made a number of recommendations for further studies and changes in the functions and staffing of the Courier Service which are currently under review or being implemented in order to assist the Courier Service in dealing with the large and constantly growing volume of classified and sensitive materials shipped in courier channels worldwide.

Question. Local nationals employed at overseas posts are not allowed access to classified information. What type

of threat do these local employees pose to U.S. security interests at overseas posts? Is the principal threat the disclosure of national security information or the physical security of personnel and property?

Answer. In certain circumstances Foreign Service Nationals (FSNs) can pose serious personnel security threats to the Americans at a U.S. Embassy because they have the opportunity to observe the American Staff almost daily. From this opportunity they can form opinions of life styles, personal weaknesses, work habits and all-to-often job assignments.

FSNs are the most easily exploitable of the Embassy staff in that they can be pressured by the host government intelligence service in ways that the Americans cannot. Work permits can be withheld, pressure can be brought upon the FSN's family, he can be arrested. There is also the issue of where the FSNs loyalty lies. Most, if not all, are loyal to their own country and not to the United States so it is unreasonable to assume that they feel that they owe the U.S. merely because we pay their salaries.

The principal threat is the disclosure of national security information. However, that information may involve the identification of certain embassy staff for targeting by hostile intelligence services or the disclosure of physical or technical security countermeasures taken by the embassy.

Question. In its response to GAO's report on Embassy blueprints, State indicated that it would screen all foreign contractors before allowing them to bid on overseas construction projects and receive copies of Embassy blueprints. State also said it was requiring each bidder (both foreign and American) to submit the names of all major subcontractors to be used on each project. How many such investigations has State conducted to date and has State ever denied potential contractors or subcontractors access to Embassy blueprints? Specifically, what does State do to screen foreign contractors and subcontractors?

Answer. Most embassy construction work today is performed by cleared American firms. All firms are denied access to embassy blueprints unless they have approved clearances. The use of foreign firms on overseas construction projects is restricted to contracts which do not involve physical or technical security as specified in Section 402 of the Omnibus Diplomatic Security Act of 1986. The Department uses foreign firms in limited circumstances, and only on unclassified projects. In those instances where foreign bidders and their prospective subcontractors may be utilized, a security check is performed by the Diplomatic Security Service to determine the firm's eligibility. No contract is awarded to any firm that has not been approved in advance.

Question. Executive Order 10450 mandates that a government employee in a critical-sensitive position must be reinvestigated and his/her security clearance updated at least every five years. Of those State employees who

have 5 or more years of service, how many are in need of a security update? Given that many State employees have access to national security information and could be targets for foreign espionage, how high of a priority does State give to reinvestigating and updating its employees' security clearances every 5 years?

Answer. The Department of State conforms assiduously to the specific requirement in Executive Order 10450, which reads: "Whenever there is developed or received by any department or agency information indicating that the retention in employment of any officer or employee of the Government may not be clearly consistent with the interests of the national security, such information shall be forwarded to the head of the employing department or agency or his representative, who, after such investigation as may be appropriate, shall review, or cause to be readjudicated, in accordance with the said act of August 26, 1950, the case of such officer or employee."

Further, the Department of State is aware of the requirement established by the Office of Personnel Management (OPM) in Federal Personnel Manual, Chapter 736, sections 1-7 and 3-8, for update investigations every five years, to consist of an updated personnel security questionnaire, a National Agency Check, subject interview, record searches, credit search, and resolution of issues raised since the last background investigation. While this requirement is not specified in Executive Order 10450, it is directive on all federal departments and agencies, as OPM is vested with the responsibility for implementing the Order. OPM issued this requirement January 6, 1984, as part of Basic Installment 311.

The Department of State is making a concerted effort to update security investigations within current resources and gives it a high priority. Indicative of the increased emphasis on this program are the number of reinvestigations in recent years. Specifically, reinvestigations have steadily increased from 284 in 1985 to 1,078 for 1987 and a projected 1,400 for 1988. In addition, the Department investigates several hundred allegations relating to possible misconduct or counter intelligence concern per year.

Indeed, because of the recognized sensitivity of employment in the Department of State, to include the likelihood of foreign intelligence targeting of Department employees, State is highly sensitive to the need for a continuing program to ensure the security trustworthiness of our employees. This awareness is expressed in three primary ways.

First, the Diplomatic Security Service investigates and evaluates any allegations that arise regarding an individual to ensure that continued security clearance is warranted, and will suspend clearance pending resolution of such issues whenever appropriate. This policy ensures that no cleared personnel will retain their clearances through inattention to information that comes to the attention of the Department. Also, this procedure ensures immediate evaluation of most

unfavorable information that would otherwise be developed during routine five year update investigations.

Secondly, many State personnel require special access of different sorts, to include Department of Energy "Q" clearance, Sensitive Compartmented Information, CRYPTO, and NATO, to name the most common. All such special access authorizations are subject to update investigation.

Finally, most State personnel are subject to security file reviews periodically for reasons related to their career development, although these are not documented as formal security updates. These reviews occur in a variety of circumstances that arise out of the unique requirements of the Department. Such reviews are required to ensure that Security has no objection to personnel being considered for tenure and promotion, or assignment to high sensitivity posts. In addition to reviewing the primary security file, checks are made of the files of the Inspector General, the Office of Personnel, and the Special Investigations and Counterintelligence staffs in the Diplomatic Security Service.

This combination of requirements ensures that most personnel within the Foreign Service have been vetted by Security more frequently than every five years.

Question. Is it true the Diplomatic Security investigators spend so much time doing background security investigation on hundreds of potential employees (only a few of which will actually be hired) that the periodic reinvestigation of people actually handling classified data is not routinely being done? If so, what is the rationale for this practice?

Answer. Many Foreign Service candidates on whom security investigations are conducted are ultimately not hired because of the availability of more highly qualified applicants, or because they are found unsuitable by the Review Panels. The thorough background investigations conducted by the DSS provides the bases for these assessments.

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

As you know, the Omnibus Diplomatic Security and Anti-Terrorism Act of 1986, P.L. 99-399, contains a provision designed to increase small and minority business participation in diplomatic security projects. This law established a 10% goal for American minority contractors and an additional 10% goal for American small business contracts for Diplomatic Construction Program projects.

Question. Do you believe there is a role for our nation's small and minority business in providing quality security systems to help protect our diplomatic corps against terrorist and other attacks?

Answer. The Department supports a role for small and minority businesses. Any small or minority business that has the fiscal, technical and personnel resources required to engage in the research, development, and testing process for new security systems, or which has new or innovative security products/applications, should contact the Department's Office of Small and Disadvantaged Business Utilization. Small and minority businesses are already making a significant contribution to our efforts to protect the diplomatic corps by providing such services as construction quality assurance, construction estimating, and architectural services for physical security upgrades and new office building construction.

Question. What progress is being made toward implementing the 10% Goal? How many small and minority contracts have been awarded?

Answer. The Office of Foreign Buildings Operations is making every effort to meet the target of awarding 10% of its contract dollars to small business concerns and 10% to minority-owned business enterprises. A/FBO has awarded $226,617,070 in prime contracts and orders since the inception of the Diplomatic Construction Program authorized by the Omnibus Security and Antiterrorism Act of 1986. Of this, $57,914,567 (25.6%) was awarded to small business concerns and $7,895,464 (3.5%) was awarded to socially and economically disadvantaged business enterprises. In addition, the construction prime contractors have awarded $4,456,000 to small business and $445,000 to small disadvantaged business concerns under subcontracting plan requirements. When these subcontracts are included, the total for awards to small business concerns is $62,370,567 (27.5%) and that for awards to socially and economically disadvantaged business enterprises is $8,340,464 (3.7%). These figures do not include contracts for two projects which are being negotiated under the 8(a) Program (construction of staff housing in Guinea-Bissau, $1,600,000 and design of the Office Building Complex in Tunisia $2,6000,000) or the contract for design of the Office Building Complex in Lima, Peru, $3,000,000 which is being negotiated with a minority owned firm. If these negotiations can be successfully concluded, the percentage for awards to socially and economically disadvantaged firms would increase to 6.6%. A/FBO has awarded a total of 4466

contracts and orders since the inception of the Program. Of these awards, 3507 (78.5%) were awarded to small business concerns and 308 (6.9%) were awarded to firms owned by socially and economically disadvantaged individuals.

In addition to contracts awarded by A/FBO for Capital Construction, the Bureau of Diplomatic Security (DS) in FY88 has awarded contracts of approximately $15 million dollars to small and minority contractors. These contracts cover such programs as construction quality assurance, construction estimating, architectural services for construction projects, construction surveillance, crisis management exercise programs, computer security, computer programming services, and security awareness.

Question. Please explain the State Department's efforts to facilitate small and minority businesses according to this law.

Answer. The Department takes a number of steps to assure that as many target business enterprises as possible participate in the Program. The first of these is that A/FBO personnel have met with representatives of the National Association of Minority Contractors (NAMC) to assure that the Program is publicized through these organizations. Second, State Department personnel representing A/FBO have attended a number of the Federal Procurement Conferences held at various locations throughout the country to provide information to interested firms. Third, Department personnel are exploring the possibility of entering into a contract with a minority firm or University to conduct a more extensive outreach program than use of the Federal Procurement Conferences permits. This program, under the guidance of the A/FBO Small and Minority Business Coordinator, would attempt to locate qualified small and minority business enterprises to participate in all aspects of the Department's construction and maintenance programs. Fourth, each request for a contract is reviewed by A/FBO's Contracting Officer with the Small and Disadvantaged Business Utilization Advisor and the Program Officer to determine whether the action is suitable for reservation under the 8(a) Program or set aside as a small business set aside. Fifth, each contract in excess of $500,000 and has subcontracting opportunities, which is awarded to other than a small business, contains a small and small disadvantage business subcontracting plan which is negotiated before the contract is awarded. Sixth, each project is reviewed to determine whether or not a portion of the work can be broken out for direct contract by A/FBO under small business set-aside or 8(a) reservation. Finally, security clearances have been requested on several minority-owned firms which have been identified as likely candidates for future work. This will enable the firms to complete for some of our time critical projects requiring high level security clearances. These firms in the 8(a) Program have been submitted for security clearance prior to the identification of specific projects for them.

Question. What specific procedures has the State

Department established for small and minority businesses to follow if they are interested in competing for contracts for Diplomatic Construction Projects?

Answer. The Department has established no specific procedures for small and minority owned businesses to follow in order to compete for contracts for Diplomatic Construction Projects. Each project is reviewed to determine whether it or a part of it can be set aside for small business concerns or reserved under the 8(a) Program. If the Project, or a portion of it, cannot be set-aside or reserved, the Department encourages the formation of Joint Ventures between U.S. Persons which can qualify and small or minority concerns which would otherwise not be able to qualify. In order to assist small and minority-owned firms to participate as subcontractors, A/FBO includes in every contract in excess of $500,000 or every construction contract in excess of $1,000,000 the requirement for negotiation of a subcontracting plan for small and small disadvantaged business concerns. A/FBO makes available to all interested small and minority-owned firms the list of firms which were prequalified to participate in a project.

DEPARTMENT OF STATE TELECOMMUNICATIONS NETWORK (DOSTN)

Question: Is embassy security negatively affected by the existing telecommunications network, and if so, how will DOSTN improve our capability to respond to crisis situations?

Answer: NSDD-145 requires that unclassified but sensitive information be protected. Unclassified yet sensitive information cumulatively can provide valuable intelligence data to an adversary. Many overseas posts do not have the capability to comply fully with NSDD instructions. DOSTN, with its end-to-end encryption feature, will provide the Department with this capability and will improve overall security of overseas posts.

Specifically, DOSTN will provide an enhanced capability to respond to crisis situations as a result of the many new features built into the design of the system.

High availability of circuits, dynamic allocation of band-width to meet changing user requirements, alternative routing provisions, the introduction of Network Control Centers and overall network flexibility all serve to greatly improve the Department's ability to exchange critical information, reliably, in response to crisis situations. The DOSTN architecture provides significantly more service than the present system in situations where line availability has been degraded.

Another important security feature of the DOSTN architecture is that telephone conversations from posts, presently being transmitted over open lines, will be encrypted as they leave the post.

Question: Last year the Appropriations Committee instructed the State Department to develop a "full reimbursement plan" for expenses incurred in providing

office space and administrative support for non-State Department personnel overseas. Would DOSTN provide the Technical capability to bill such users of telecommunications services who are housed at embassy locations?

Answer: The DOSTN has been designed with the inherent capability to provide detailed statistics which will allow the "billing" of individual Department of State and other agency users based upon their actual use of the system.

The DOSTN equipment will provide "call detail reporting", which will give statistics on connections established, the type of connection (e.g., voice, data, video), bandwidth use, time and duration of connection, etc. These statistics will allow the users to be billed fairly.

The computer processor serving as the DOSTN node, will collect statistics on the actual volume of data sent and received by individual user terminals. These traffic statistics will allow the user to be billed either a per packet or by circuit time used.

Statistics will be provided to DOSTN management and will be consolidated into a variety of management reports. We will use these to measure and analyze DOSTN system performance and use. Based upon this analysis, the Department will be able to establish a schedule of user fees.

Question: Given the rapidly escalating costs of the State Department's telecommunications services under the current network arrangement, how will DOSTN improve cost controllability in the future?

Answer: DOSTN will improve cost controllability by providing a network Management Control Center (MCC) which will have the capability to collect a broad range of costing data. This data will be programmed into a billing system. The billing system will permit a cost-sharing system. DOSTN will also permit sharing of lines and/or reduction of waste through collection and analysis of usage information.

Question: Managing sophisticated networks is a complicated matter. Does the State Department intend to assume this responsibility in-house, or will this be farmed out to an expert contractor?

Answer: The overall management of the DOSTN will be accomplished by the Department's Office of Communications. But having recognized the complexities of managing and operating a worldwide network, the Request for Proposal, which will be released for full and open competition, provides for the winning contractor to play a major role.

The contractor will be required to perform system integration, systems and circuit acquisition, facilities preparation, engineering and installation, network management and technical control operation, logistics and

maintenance, training, and all required documentation in support of DOSTN. The contractor will provide all communications equipment, other than that furnished by the government, the connecting communications circuits, engineering and integration design, installation support, network security integration, network operations of three domestic Network Control Centers (centralized diagnostic testing facilities which will provide network management and trouble isolation), and full service maintenance of all communications systems in the network.

The Department has established a Program Management Office to oversee and monitor the contractor throughout the implementation phase. As DOSTN is installed, the Network Control Centers (NCCs) manned by contract personnel, with minor exception, will become the hub of the day-to-day, real-time management and control of DOSTN. The NCCs, each oriented toward specific geographical areas but also interconnected, will perform myriad functions such as: managing and controlling bandwidth allocation, system diagnostics, fault isolation and service restoration.

United States industry is on the leading edge of telecommunications technology, and the DOSTN program will exploit that expertise. This expertise, coupled with and the operational and telecommunications experience within the Department, results in an excellent balance of technological expertise, managerial talent and operational experience from both government and the private sector.

Question: The current network's so-called "star" configuration poses certain operational and management limitations. How will DOSTN improve this situation?

Answer: Currently the Department of State has multiple communications networks consisting of low, medium and high speed circuitry. These networks are in a "star" configuration with point-to-point connections dedicated to individual customers.

These existing Department networks are fast becoming unable to support the rapidly expanding requirements of the foreign affairs community. In order to meet ever-increasing requirements, the Department must more efficiently allocate bandwidth, increase redundancy and flexibility, and more effectively management and control capabilities of its network.

The Department of State Telecommunications Network (DOSTN) is an architecture designed to accommodate all of the emerging requirements for data, video teleconferencing, and voice (telephone) communications. DOSTN will be a distributed network with a hierarchical structure and high capacity circuits to serve large, medium, and small Foreign Service Posts. DOSTN is designed to provide sufficient redundancy and diversity to assure high availability and reliability.

Question: Protection of classified and sensitive information exchanged between Washington and our Foreign Service Posts is critically important. How will DOSTN improve our capability to safeguard such transmissions?

Answer: A more secure system operating environment is assured through the use of NSA approved end-to-end encryption devices as well as link-to-link encryption techniques.

DOSTN's packet-switching technology coupled with the family of associated equipment assures inter-operability with other key federal telecommunications systems that currently employ this technology. Additionally, a DOSTN security architecture has been established using a combination of end-to-end and link-to-link encryption techniques to provide the necessary protection during data transmission. In telecommunications systems where packet-switching techniques are used, link encryption alone does not protect information while it is being processed within the switching nodes. The difference with DOSTN end-to-end measures is that the information is encrypted before it enters the DOSTN and remains encrypted until after it has left the DOSTN. This method precludes having highly cleared individuals manning the packet-switching nodes since the only information they will have access to are the packet addresses.

In addition, all links between each level within the DOSTN will have NSA approved link-to-link COMSEC equipment installed. This will protect the data while it is in transit over the single link.

Question. The Department is requesting an increase of $94 million for the salaries and expenses account in 1989, for a total of $1.799 billion. Diplomatic security funding would remain constant at $303 million. Two program increases are being requested; $7.7 million to replace foreign employees in Eastern European posts and $30 million to begin construction of a new Foreign Service Institute in Arlington, Virginia, at an eventual cost of $73 million. If a security training facility is added as well, the cost will increase to approximately $85 million.

At the same time the Committee is being told the Department faces a shortfall of $102 million in 1989 due to unfunded wage and price increases, exchange rate losses, and increased security costs. In particular, a diplomatic security shortfall of $29 million is anticipated.

A new Foreign Service Institute is a fine idea, but can't we look at an existing facility in the area, rather than starve the rest of the Department? At a minimum, does it make sense to explore the option of a construction-lease arrangement to avoid heavy costs up front?

FOLLOWUP: Provide a list of sites and facilities surveyed for a new home for the Foreign Service Institute. Provide a comparison of costs with the Department's proposal, and indicate the reasons why each alternative site for facility was rejected.

Answer. The National Foreign Affairs Training Center will include both the Foreign Service Institute and Diplomatic Security Training Center. Overall costs for the facility which will house both groups are estimated to be $73 million not $85 million.

The Department and GSA looked at a number of existing facilities in the Washington area before concluding that none could satisfactorily meet the training requirements of the 40-odd federal agencies and approximately 11,000 students who use Foreign Service Institute facilities annually.

The new training center will need approximately 200 classrooms to accommodate the student load, most of them small classrooms for language learning in groups of not more than six students. Existing academic and other facilities simply aren't built with that requirement in mind. That has been the major problem with the current renovated office space in Rosslyn.

We have considered the lease-purchase option. While it would avoid the heavy upfront costs of federally funded construction, it would be more expensive to the taxpayer. Further, the Administration has expressed itself in opposition to continued GSA use of the lease-purchase option in general.

There is no question but that 1989 will be a tight budgetary year. Secretary Shultz nonetheless believes that our highest priority is found in preparing the women and men who represent the United States abroad: with language and area skills, professional competence, spirit and self-confidence.

It is significant, as the transcript of his testimony will show, that in his oral summary of written testimony submitted for the record, the Secretary singled out only one item in the FY 1989 budget request: the new training site. He judges enhanced competence to be that important to the country.

For a generation, the United States has overwhelmed its foreign problems with resources: people, money, technology, weapons. General Motors similarly dominated the global automotive market.

We no longer have that luxury. Our wealth has declined relative to that of others. Now we must live by our wits in an international arena that is always in flux, frequently dangerous and sometimes hostile. The most cost-effective investment we can make in our future is an investment in the skills of those who conduct our international affairs. The costs of not doing so will be much greater, perhaps incalculable.

The bottom line on this proposal, from the taxpayers' perspective, is that the project will save a minimum of $41 million (and more probably $61 million) in tax dollars over the next 30 years, according to a GSA present value analysis submitted to sub-committee staff last September.

In 1984, the GSA developed a listing of federally owned properties with potential for the FSI site. Cost comparison analysis were done only for the Pentagon North Parking Lot and the Arlington Hall site. The following lists the sites that were seriously considered by the Department and GSA and the reasons each site was rejected:

Site	
Southeast Federal Center 1st & M Streets, SE	Site precluded building type of center desired. Security factored into rejection--area could not be easily screened from public access. Ambience not conducive to adult learning center.
Temporaries A & B 2nd & Q Sts., SW	This site was undergoing disposal to the National Defense University.
Potomac Annexes	Too small to accommodate DOS requirements. Navy felt they owned site.
Forest Glen Section Walter Reed Army Medical Center Old National Park Seminary (I-495 & Georgia Avenue)	Distance from Department. Army decided they still wanted to use.
Pentagon Complex North Parking Lot & Old Sewage Treatment Plant	Considered. Rejected because of noise, small size of lot precluded kind of facility DOS desired. DOD expressed desire to expand into this area--would have needed DOD concurrence.
Arlington Hall Route 50 Arlington, Virginia	Selected. DOD indicated they may not need by 88.

Actual cost comparison studies were undertaken for the Arlington Hall site and the North Pentagon Lot site by GSA in 1984. However, while noting that without an appropriate engineering and feasibility study it was extremely difficult to predict costs they estimated that costs for both sites would be

comparable except for the possibility that the Department might have to pay acquisition cost to the Army for the Arlington Hall site.

Question: Mr. Secretary, the Congress has provided $192 million for the new Moscow embassy project, including the chancery, of which $38 million remains unobligated. In addition, we've spent millions on technical studies of the new office building. Finally, we are spending approximately $35 million to rehabilitate the existing office building, which includes general rehabilitation that would probably not be needed if we had a new, secure facility, as well as security costs to replace equipment which may or may not have been compromised during the alleged Marine spying incidents. In addition, there are undoubtedly tens of millions of dollars in related costs and in costs absorbed by the intelligence community. The bill is staggering; if the Russian goal was to divert millions of dollars and untold human energy into essentially non-productive activity, they certainly succeeded.

Given the huge costs generated by the Moscow embassy project and related incidents, both in terms of funding and institutional chaos, is there any way to assess responsibility? And if there is not, and there is no way to assign responsibility in the future, why should the Congress trust the State Department and the intelligence community with future building projects in China and Eastern Europe.

Answer: Despite the enormous problems encountered in the Moscow project, it should be noted that $121.9 million of the $144.9 million expended to date were for 134 apartments and townhouses, a 20-bedroom Marine Guard residence, a 9-classroom school, a consular office building and 203,300 square feet of recreational and support facilities, all of which are currently in use and were completed to a high level of American standards under one of the most difficult construction environments in the world. Further, we have already filed claims of $29.9 million against the Soviets for delay and defective work, and will file further claims once the full cost of constructing a secure chancery in Moscow is finally determined. While these facts demonstrate that substantial assets have been acquired from 84% of the appropriated funds expended in Moscow, they are not meant to detract from the substantial present and future costs associated with the security problems in the unfinished chancery resulting from implantation of listening devices by the Soviets.

That situation is the direct result of decisions and agreements made at the most senior levels of several Administrations over the past two decades which permitted pre-fabrication of structural elements by the Soviets and use of Soviet labor in constructing the chancery. It appears that those decisions were made on the premise that superior American technology could disable Soviet devices which was sure to result from their direct involvement in the project. It is now clear that the level and extent of Soviet technological sophistication was much greater than had been anticipated.

Current policy for construction of new office facilities in Moscow and Eastern Europe requires development and implementation of appropriate security programs and procedures related to programming, design and construction to prevent technical compromise. These include exclusive use of cleared American contractors and labor; extensive site security and construction surveillance; secure transit of materials and equipment; classification and protection of design and construction documents; and tough construction agreements which remove the host government from participation in the design and construction process, protect USG security interests and use reciprocity to the maximum extent necessary to ensure compliance.

Further, the Department has commissioned a detailed expert study on the best means for incorporating "state of the art" security technology into the design, logistical support and construction requirements for a new Moscow chancery. The results of this study will have a major impact on program and implementation decisions for new construction at other high technical security threat posts.

Question. Mr. Secretary, last July a panel headed by former Defense Secretary Melvin Laird reported to the President on its findings regarding security at posts in the Soviet Union. The report was very critical of the leadership of Ambassador Arthur Hartman at the time of the alleged Marine spying incidents, and of the conduct of the Marine Corps contingent in Moscow. The panel did not reach a conclusion as to whether or not Marine spying incidents took place. However, as reported in the Washington Post, the report states, "Our investigation has revealed that a situation existed...that would have permitted the incidents to have occurred as alleged..." Do you concur in that judgement?

Answer. Based on more careful interrogration of Sgt. Lonetree the investigation has concluded that the Soviets received some information from Sgt. Lonetree, but it was not as sensitive as we originally believed. At the time that the allegations came to light, it was prudent for the U.S. Government to protect against any breach that may have occured, in order not to overlook any possible breach of security at these posts which operate in the most hostile intelligence environment of any in the Foreign Service. For this reason, the Laird Commission proceeded to consider all possibilities at the outset of its investigation.

Followup: The Commission criticised Ambassador Hartman for an "aloof" management style according to the Washington Post. During a recent trip to China, staff found that Ambassador Winston Lord has just the opposite approach, and the result has been much higher morale than at our posts in the Soviet Union over the last few years, and a greater commitment to security. Has the Department stressed the importance of this approach to our new Ambassador and top officials in Russia?

Answer. Yes, we have reiterated, to all ambassadors, their specific authority over all activities and personnel

at post and responsibility for security. Ambassador Matlock, who has been at post now for over a year, is especially aware of the hostile intelligence environment at Embassy Moscow and constituent posts in the Soviet Union and its potential effects on employee morale. Security procedures at these posts and throughout the East Bloc have been heightened extensively and I believe that all personnel have a greater appreciation and understanding of security considerations. All post personnel stationed in the Soviet Union and Eastern Bloc countries are given pre-departure counterintelligence briefings to prepare them for the unusual demands of their working environment.

Followup: The Laird Commission report included a number of detailed recommendations for operating in the Soviet Union. Have you reviewed these recommendations, and do you intend to implement them?
For the record, please provide your response to each recommendation contained in the report.

Answer: I have reviewed the Laird recommendations and the Department has used many of them to address what were regarded as serious security defects with our operations and facilities in Moscow and Leningrad. Also, we have applied what we learned from security problems at these two posts to all others in the East Bloc. Since the Laird Report is a classified document and because it concerns the internal operations of the Department and our posts abroad, we cannot provide any information about it for the public record. If the Committee wishes to be briefed on the action the Department has taken to implement the Laird recommendations, we would be willing to do this at your earliest convenience.

Question. Section 153 (b) of the Foreign Relations Authorization Act states, "The Secretary of State shall not allow the Soviet mission to the United States to occupy any new consulate in the United States until the United States mission in Kiev is able to occupy secure permanent facilities." On April 25 the Washington Post reported that you had suggested opening a small, unclassified post of six officials. I understand they would be temporarily housed in quarters previously identified as a residence for the Consul General.

How does the proposal for unclassified, temporary facilities meet the requirements in the law for secure, permanent facilities in Kiev? Will the Soviet Union be restricted to six officials in its proposed New York consulate on the basis of reciprocity? What will be the startup costs and annual operating costs of our post?

FOLLOWUP: When you appeared before the subcommittee in 1986, you proposed opening a consulate with 30 officials. In addition, you testified that reconstructing an existing building in Kiev, which I understand you visited, would cost $48 million.

Does the Department have plans for eventually expanding the consulate to 30 officials? Would you anticipate using the existing building, or constructing a new consulate?

Answer. We have recognized for several years the need to have a consular establishment in Kiev. The Ukraine is a very important part of the Soviet Union; opening a post there will provide the only U.S. presence in a non-Russian area of the Soviet Union roughly comparable to France in size and population. It will give us an important capability to monitor the human rights situation in the area. Further, several million Americans have family ties to the Ukraine, more than from all other areas of the USSR combined. A Consulate will enable us to assist U.S. citizens with many problems which cannot be effectively handled from Moscow, e.g., divided families, inheritance problems, citizenship questions.

We have developed a concept that would enable us to begin operations in Kiev quickly and be highly cost-effective. It draws on our recent experience with the Special Embassy Program and our planning for a new category of small consulates. It may not be the last word on how we decide to conduct consulate operations in Kiev; we will look at the question again once our Embassy in Moscow is operating normally in secure, permanent facilities. But we feel sure we can reap many of the benefits of being in Kiev at a minimum cost by limiting the consulate's complexity, staff and workload.

The concept is to have a small post with a staff of six Department of State and USIA personnel. They would carry out important political, human rights, representational, economic and public affairs work and perform emergency consular services. Communications will be by open telex and telephone. Officers would travel frequently to Moscow to prepare classified reports. There would be no classified material or work at the post.

We will lease and repair several apartments, and lease and furnish office space. Our best estimate is that start-up expenses and first-year operating costs will be a little more than $4 million. In order to open the Consulate on January 1, 1989, we will need to incur costs of a maximum of $750,000 in FY 1988. They will be covered from current resources. The final cost will be determined when we re-survey the actual facilities for technical, physical and security requirements.

We recognize that actual implementation is contingent on agreement with the USSR including reciprocal Soviet consular activities of a similar scale in New York. We will assure that any increased Soviet presence in the United States which occurs as a result of opening Kiev takes into account the concerns previously expressed to us by members of the Committee. The Soviets will be limited to the

same number of personnel as we have in Kiev and will be required to conduct consular operations from US provided facilities leased through the Department's Office of Foreign Missions. We believe that this reciprocal treatment will meet the terms of section 153(b) of the Foreign Relations Authorization Act, Fiscal Years 1988 and 1989. We will keep the Committee informed as discussions proceed. If we can reach a mutually acceptable agreement with the USSR on this effort, we could have a useful, cost-effective presence in Kiev at the end of 1988.

Question. In Beijing the State Department is considering a proposal to expand the embassy compound by taking over the Bulgarian Chancery next door. I understand the Bugarians are building a new compound which will be completed in the near future.

If this is done, does the Department of State intend to de-construct the existing chancery building on the new site or simply take over what the Bulgarians leave us? If we do the latter, how can we be sure we don't have Moscow in Beijing?

Answer. The Bulgarian relocation is in the very early stages. Current estimates are that the negotiations, design, and construction of a new Bulgarian embassy would take approximately five years. The principal attraction of the compound to the USG is that it is immediately adjacent to the current U.S. Chancery. By taking this property, we would be able to consolidate our operations from three to two compounds.

Since the building(s) on the Bulgarian site were built for purposes other than those for which we would use them, and the fact they have been occupied by a hostile power, current planning assumes that the existing structures on the property would be razed.

Question. Our Consulate in Shanghai does not have Marine security guards. It relies on security at night from the local police outside the walls of the compound. The Consul General and his wife are presumably responsible for preventing tampering with the communications vault, safes and other secure facilities.

However, during the last year, three burglaries have occurred at the Shanghai residence. In one incident, $10,000 in jewelry was taken while the residents were asleep. In another, an intruder pulled a knife on the Consul General's wife.

What immediate steps is the State Department taking to address these problems? Until these problems are corrected, should Shanghai continue to hold classified?

Answer. The security posture of the Shanghai Consulate will be greatly augmented this Summer with the arrival in July of a Marine Security Guard detachment and the arrival in August of a professional Security Officer. Pending the arrival of the Marine detachment, the post has taken actions to improve their security: all safe containers were relocated within an area of the Consulate under cleared American control and alarm systems have been installed covering each of these areas. With the arrival

of the Marine detachment in July, the post will be in full compliance with the new standards for handling, storage and transmission of classified material.

Question: Our consulate in Guangzhou was quickly opened in 1979 "to permit Vice President Mondale to cut a ribbon during his trip to China" according to a State Department cable. This is a good illustration of the problem of allowing summits and foreign visits by dignitaries to set the political agenda and force decisions that should not have been made.

The current Guangzhou consulate is a security nightmare. It is spread between 4 floors of a hotel, and most of the space is not contiguous. The People's Liberation Army has a barracks directly above the Consul General's office. Numerous utility and air shafts penetrate the consulate space. There are no Marine guards and no 24-hour presence.

There are Chinese guards, however, who stand between the two wings on the 11th floor of the hotel, and from there can monitor the movement of Americans.

Mr. Secretary, why does Guangzhou continue to operate as a classified post, and why has this situation been allowed to continue? I understand we may finally have a solution in the form of a building currently occupied by Esso Oil. Can you tell us if a final decision has been made to attempt to buy or lease this building?

Answer: The situation in Guangzhou is, indeed, a disastrous one and has been the focus of A/FBO and DS attention since last summer. Following the implementation of new security regulations relating to storage of classified material, Guangzhou was given a time limit during which to correct deficiencies, including the lack of 24-hour American presence. The post is presently being processed for cleared American guards who will provide the needed 24-hour coverage.

Several teams have travelled to Guangzhou during the past year in an effort to identify a suitable alternative to the current Consulate location. However, to date, the so-called "Esso Tower" seems to be the most promising. A/FBO is currently assembling data on the structural aspects of the building to ascertain such elements as load bearing characteristics. In addition, there are a number of security issues which must be addressed. However, if these problems can be overcome, we plan to lease this free-standing building for both office and residential use.

Question. The Urgent Supplemental Appropriation Act of 1986, passed the Congress in June of that year. Of the $272.1 million available under the terms of that legislation for diplomatic security in the salaries and expenses account, $139.9 million had been obligated as of the latest monthly security report available to the Committee. This leaves a balance of $142.7 million [$132.8 million] -- over 50% -- still unobligated almost 2 years since the passage of that urgent supplemental. Why is that?

Answer. As of March 31, 1988, over $170 million of the $272 million appropriated in the 1986 Urgent Supplemental had been either obligated or committed. This is nearly two-thirds of the total amount appropriated. Efforts are underway to use the remainder of the $272 million as expeditiously as possible.

Followup Question. Of the $127 million identified in the Salaries and Expenses account for Inman security programs in 1987, $81.2 million was obligated in September, the last month of the fiscal year. This suggests a desperate attempt to shovel money out of the door before the funds lapsed. What was the reasons for the bulge in obligations at the end of the fiscal year?

Answer. The obligations of FY 1987 diplomatic security funds during the month of September 1987 were high for a number of reasons. First, as of the end of August, 82 per cent ($104 million of the $127 million) of these funds were either committed or obligated, which left only 18 per cent ($23 million) of the funds as both uncommitted and unobligated at that time. Second, this entire $23 million was obligated during the month of September, reflecting the culmination of negotiations on numerous large contracts with organizations such as GSA, the Federal Law Enforcement Training Center (FLETC), and suppliers of armored vehicles. Finally, the $58 million of committed but unobligated funds that was obligated in September reflected a large backlog in the pipeline of financial transactions which had been initiated during FY 1987 but which had to be processed in the final month of the fiscal year.

Question. During consideration of the 1986 security supplemental, Assistant Secretary Lamb repeatedly told the Subcommittee of the importance of the residential security program. As a result, $89 million was appropriated for that purpose. Last month, however, $29 million was reprogrammed from residential security to construction security. Does that mean that residential security is no longer a priority?

Answer. Residential security remains a high priority in the Department's overall security program. However, since the original submission of the Diplomatic Security Supplemental in 1986, it has become evident that a significant unmet need for construction security had to be addressed urgently to assure the integrity of current and new office building projects initiated by the supplemental. Recognizing the constrained resource environment, the Department requested this reprogramming. The essential effect on residential security will be to postpone that program's coverage of lower threat posts. We believe that this represents both a prudent use of limited security resources and application of these resources to the highest overall current needs.

Followup Question. The head of the residential security program has informed Subcommittee staff he has approximately $30 million in needs in fiscal year 1989,

but is slated to receive a budget of $4 million. Is this an accurate assessment of needs? If so, does the Department intend to attempt to provide the $30 million through a reprogramming or reassessment of priorities?

Answer. We are worried about our ability to meet our security commitments in FY 1989. Total funding requirements identified by Bureau of Diplomatic Security (DS) program managers already substantially exceed available funds for the current fiscal year. Because the remaining FY 1986 'no-year' supplemental funds are being used up, a number of programs such as construction security have been left with smaller budgets in FY 1989 than in FY 1988. DS is currently reviewing its overall resource situation as part of the Budget process. As a result of this review, funds will be made available to security programs based on analysis of the threat levels and existing security posture at overseas posts. The most urgent requirements are addressed firs .

Question. Last year when it became evident the Congress could not provide the full funding level required for international organizations, many representatives of these organizations engaged in a vigorous lobbying effort at the Department of State and on Capitol Hill to protect themselves at the expense of others. This lobbying has continued up to the present, and in many cases is done by former Foreign Service Officers who've left the State Department and immediately gained employment at lucrative positions in the United Nations, the Food and Agriculture Organization, the Pan American Health Organization, and elsewhere.

Minority staff of the subcommittee became concerned about the propriety of such lobbying and asked for a legal opinion from the Department on this issue last September. My understanding is that such an opinion was prepared in October, but despite assurances from Under Secretary Ron Spiers, Deputy Assistant Secretary Shaw Smith, and recently-confirmed Assistant Secretary Rich Williamson, the opinion has not been provided to the Committee. Why is that? Does the Department have something to hide? Is this a situation of Foreign Service Officers protecting their friends employed by international organizations?

FOLLOWUP: Please provide a copy of the October opinion for the record, as well as any modifications to that opinion that may have occurred.

Answer. While the Department recognizes that it is appropriate and desirable for international organizations to provide members of the public, including members of the Congress, information relating to the work of those organizations, it also recognizes that some representatives of organizations have gone further and have, in fact, improperly lobbied Congress. As you have indicated, the Department has been studying this problem for some time, and is considering various actions to address it. In connection with our internal deliberations, a legal opionion was prepared at the staff level addressing this problem last October. You have requested a copy of that opinion. As a matter of policy, the Department does not normally provide such documents although we are prepared to

share with you the Department's analysis of this problem. We have your letter on this topic under careful consideration, and will be responding formally to you shortly.

Question. The Congress provided $144 million for the United Nations in 1988, of which $100 million has been released. Under the terms of the modified Kassebaum amendment, the remaining $44 million will become available when the President certifies the United Nations is making progress in three areas --

1.) the consensus-based budget reform procedures are being implemented and respected by the General Assembly;

2.) the Soviet Union and Eastern Bloc countries are not being allowed to place employees in the Secretariat through back-door, short-term contracts call "secondments;"

3.) the 15 percent reduction in the staff of the Secretariat is being implemented.

Mr. Secretary, can you certify at this time that the United Nations is making progress in these three areas? If not, doesn't it make sense to withhold the $44 million to help meet the budgeted shortfall of $176.5 million in the request for international organizations in 1989?

Answer. The Administration believes that progress has been made on the 15 percent staff reduction in the UN Secretariat. We are continuing to work with the Secretary General and other member states to achieve progress toward the 50 percent limitation on secondments. Should it become clear in the coming months that the determination requirements cannot be met, we would consider several available options for redeploying the $44 million, including the possibility of helping meet the projected shortfalls for other organizations in the CIO account.

Classified Questions:

Clerk's Note: In addition, the committee submitted questions with respect to classified information. That information is available in the subcommittee's files.

SUBCOMMITTEE RECESS

Senator HOLLINGS. The subcommittee will stand in recess until 10 a.m. on Thursday, May 12, when we will hear from the Secretary of Commerce and the Special Trade Representative.

Secretary SHULTZ. Thank you, Mr. Chairman.

[Whereupon, at 11:53 a.m., Thursday, April 28, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, May 12, 1988.]

DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1989

THURSDAY, MAY 12, 1988

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:03 a.m. in room S-126, the Capitol, Hon. Ernest F. Hollings (chairman) presiding.

Present: Senators Hollings, Sasser, Rudman and Kasten.

DEPARTMENT OF COMMERCE

SECRETARY OF COMMERCE

STATEMENT OF THE HONORABLE C. WILLIAM VERITY, SECRETARY OF COMMERCE

ACCOMPANIED BY:

DONNA F. TUTTLE, DEPUTY SECRETARY
PAUL FREEDENBERG, UNDERSECRETARY FOR EXPORT ADMINISTRATION
WILLIAM EVANS, UNDER SECRETARY FOR OCEANS AND ATMOSPHERE
KATHERINE M. BULOW, ASSISTANT SECRETARY FOR ADMINISTRATION
MARC G. STANLEY, ASSISTANT SECRETARY FOR CONGRESSIONAL AND INTERGOVERNMENTAL AFFAIRS
MARK E. BROWN, DIRECTOR, OFFICE OF BUDGET

OPENING STATEMENT OF SENATOR HOLLINGS

Senator HOLLINGS. Good morning. This morning, the Subcommittee expects to conclude our hearings by reviewing the trade activities of the Department of Commerce and the United States Trade Representative. Our trade balance is still running a deficit of $12 to $14 billion a month, so there is a lot of work still to be done.

We will begin with the Department of Commerce, which is requesting a total of $2.4 billion for 1989, which is the same overall level as 1988. But what we do here, Mr. Secretary, in order to maintain a level-funded budget as you increase the Decennial Census and NOAA satellites and NEXRAD, you eliminate EDA and Trade Adjustment Assistance, and cut back on Minority Business Development, the NOAA Marine Research programs and the public television facility grants.

We covered the NOAA budget in March, and this morning, we will cover some of the other aspects of the Department's budget in addition to trade. We are pleased to have my constituent, the new Secretary of Commerce, the Honorable C. William Verity, a South Carolinian, to present the Department's budget to us. The Secretary is accompanied by the new Deputy Secretary, Donna Tuttle, who did an outstanding job in Travel and Tourism.

We also have some other new folks. Paul Freedenberg as Under Secretary for Export Administration; Bill Evans, Under Secretary for Oceans and Atmosphere, and our old friend, Allen Moore. Where is Allen? I am glad you have got him in the back row.

[Laughter.]

Senator RUDMAN. Is that in the script?

[Laughter.]

Senator HOLLINGS. Allen is to be the Under Secretary for International Trade with the emphasis on "Under".

[Laughter.]

Senator RUDMAN. Is he actually a South Carolinian?

Secretary VERITY. Yes, sir.

Senator HOLLINGS. The Secretary is. Actually, he ran off and headed up to Illinois. We are carpetbagging the North now. We are bringing everybody down.

Senator RUDMAN. It is so sensible.

[Laughter.]

Senator HOLLINGS. He had a home down there and a home back up in Chicago.

Secretary VERITY. Now, wait a minute. I have only got one home.

Senator HOLLINGS. Is that right?

Secretary VERITY. South Carolina.

Senator HOLLINGS. You sold the one up there?

Secretary VERITY. Yes. I sold the one up there to my daughter.

Senator HOLLINGS. Then I expect you are still paying for it.

[Laughter.]

Senator HOLLINGS. I have done that, too.

Secretary VERITY. Then I have got two homes.

Senator HOLLINGS. I yield to our former chairman. Do you have any comments?

Senator RUDMAN. No. I am just looking forward to hearing from the Secretary.

Senator HOLLINGS. Very good. Mr. Secretary, we want to include your statement in its entirety, and, of course, you can deliver it in its entirety or highlight it as you wish.

BUDGET REQUEST

Secretary VERITY. Well, I am delighted to be here, Mr. Chairman and Senator Rudman. What I would like to do, if it is agreeable with you, is just highlight the statement very quickly, and to give you an opportunity to ask whatever questions you would like. So I will do that very

quickly. I am pleased to be here to present the 1989 Commerce budget request and to answer your questions on trade issues. I will submit my statement for the record and make a few opening remarks.

The Commerce request is $2.4 billion, the same as last year. Within that amount, there are several actions that must be taken. Funding for ITA's Foreign Commercial Service must be increased by $9.2 million to maintain overseas programs. Now is the time for our best efforts to expand exports. Without these funds, approximately 50 positions will remain vacant.

Second, major emerging technology initiatives proposed for NBS to increase their budget from $144 million to $158 million, up 9 percent from 1988 and 30 percent over 1987. This committee supported the NBS expansion last year, and your help is needed again to improve U.S. competitiveness.

1990 CENSUS PREPARATION

This is a key year in preparation for the 1990 Census. The Census budget growth is from $441 million to $671 million, a $230 million or 52 percent increase. These funds must be available if the 1990 census is to be conducted as planned.

Funding for weather satellites increases from $300 million to $409, up $109 million or 36 percent, due to the normal changes of the procurement cycles. Without these funds, we risk gaps in our coverage and endanger public safety and private welfare in the early 1990s.

We have proposed to live within the Budget Summit Agreement. This year, it is important to look carefully at the savings that can be made through EDA, Trade Adjustment Assistance and other lower-priority programs.

MALCOLM BALDRIGE NATIONAL QUALITY AWARD

I want to take this opportunity to thank you, Mr. Chairman, for your efforts to establish the Malcolm Baldrige National Quality Award. The prompt actions resulting in Public Law 100–107 being signed last August will promote quality awareness, recognize quality achievements with U.S. companies and publicize successful quality improvement strategies.

Hand in hand with this effort is our "Export Now" initiative with the private sector to expand awareness of overseas trade opportunities. Finally, I would like to mention that I am proposing a reorganization to enhance the technology functions of the Department along the lines that the Chairman put forward last year. We would establish an Under Secretary for Science and Technology and a Science and Technology Administration within existing resources. That concludes my remarl Mr. Chairman.

[The prepared statement of C. William Verity follows:]

PREPARED STATEMENT BY C. WILLIAM VERITY
SECRETARY OF COMMERCE

Mr. Chairman, Mr. Rudman, and members of the Subcommittee, I am here today to present the Department of Commerce's budget request for fiscal year 1989 -- a total of $2.4 billion, roughly the same level as appropriated last year.

Commerce's request for 1989 is an integral part of the Administration's continuing effort to reduce the Federal budget deficit. Expanding deficits generated by excessive spending could produce accelerating inflation, higher interest rates and greater unemployment and, in the process, put at risk all that we have worked for in the last seven years. The President has proposed a budget which meets the deficit reduction targets set by the Gramm-Rudman-Hollings Act and complies with the Bipartisan Budget Agreement. I am here to join in asking that the Congress support this effort by acting promptly and responsibly on the Department's proposals.

In Commerce, we propose to hold the line on spending and concentrate resources in areas of national need, especially trade and competitiveness. We are asking for increased funding for expanding American trade, for administering the laws governing American exports, and for enhanced research for measurements and standards needed for commercialization of technology. We are also requesting additional monies to continue preparations for the constitutionally-mandated 1990 decennial census of population and housing.

At the same time, we are proposing to live within our means by eliminating or reducing inappropriate, ineffective and less essential programs. Some have achieved their missions. Some have proven ineffective. Others are more properly the

responsibility of the private sector or state and local governments. Still others simply do not merit continued funding in a time of fiscal constraint. Targeted reductions like these are preferable to across-the board cuts which affect worthwhile programs as well as unnecessary ones. This year I urge that whatever actions you take be consistent with Commerce's core missions.

Privatization

Ensuring that both government and the private sector do what each does best will help reduce the federal deficit and contribute to the overall health of the national economy. Commerce has always been a leader in supporting the President's privatization initiatives. In the National Oceanic and Atmospheric Administration, an aggressive A-76 program to contract out commercial activities is beginning to pay off, and in the coming months, we will be developing incentives to encourage government agencies to privatize programs which the private sector can carry out more efficiently.

1989 Commerce Budget

In the key area of trade expansion, we are proposing an 11 percent increase in funding for the International Trade Administration's (ITA) United States and Foreign Commercial Service. This will help the Service offset the detrimental effects of the dollar's decline in value on its overseas costs as it helps businesses take full advantage of favorable exchange rates to increase exports. In 1988, the Service will study alternative methods of providing domestic commercial services and, in 1989, will carry out several pilot projects. We have also included funding to carry out the U.S.-Canada softwood lumber agreement.

The President launched the EXPORT NOW! program on February 24. This new promotional effort will inform small, medium, and large businesses of current opportunities to expand exports. It will be a hard-hitting, fast-paced partnership between the private sector and the Commerce Department. It is designed to take advantage of a critical opportunity to strengthen the economy, increase jobs and reduce the trade deficit.

The 1989 budget contains Commerce's first formal budget request for the new Bureau of Export Administration (BXA). Established at the beginning of fiscal year 1988, BXA consists of units formerly part of ITA and devoted to licensing overseas sales and enforcing export control laws. We are asking for increased resources to meet expanded statutory requirements established by the Export Administration Act for foreign availability assessments. The increase is offset in part by the reductions in licensing workload generated by automation and decontrol.

Additional funds are included in the 1989 request for the National Bureau of Standards (NBS) to spur commercialization of new technologies and, thereby, improve America's competitiveness in world markets. NBS will expand lightwave research to develop measurements and standards for fiber optic systems. Further work in composite materials will assess the long-term durability of polymers. An increase proposed for bioprocessing will provide measurement technology needed to translate laboratory

developments into commercially viable products. NBS will also focus on measurement-related obstacles to commercial applications of the new, high-temperature, superconducting materials, which could have a major impact on our energy-dependent world.

NBS' request includes new funding to implement the Computer Security Act of 1987. NBS will develop systems and standards for

cost-effective security and privacy within the Federal government of sensitive, non-classified information.

Recognizing that the quality of American goods and services is fundamental to a strong competitive position, the Congress recently established the Malcolm Baldrige National Quality Award. Beginning in 1988, Commerce will administer the award, supported by private funding. It is intended for manufacturing companies, service firms and small businesses that display outstanding efforts in improving the quality of their products. The President will present the first awards in November.

As an incentive to develop technologies that could improve our quality of life, the President's 1989 budget proposes establishment of a national "Thomas A. Edison" prize. The prize will encourage inventors to apply their skills to areas in which there is great public benefit, but not necessarily strong market demand. The prize is also intended to promote the exchange of ideas among scientific disciplines and to stimulate interest in science and technology.

Fiscal year 1989 will witness critical preparations for the 1990 census of population and housing. In the wake of the 1988 dress rehearsal, the Bureau of the Census will, during 1989, process and evaluate dress rehearsal data, create a computerized master address list, and open collection and processing offices. The Bureau will hire more than 33,000 temporary employees for the 1989 program alone.

The Bureau's experiences in 1970 and 1980 demonstrate that uncontrollable and unpredictable events like strikes, fires and the failure of automated systems pose real threats to the success of a decennial census which must be performed within tight time constraints. Because even emergency supplemental

appropriations are usually too late to address these crises, we are proposing establishment of a contingency fund which the Bureau could draw upon in an emergency. Use of the fund would require my approval and review by the Office of Management and Budget.

To allow planners of the 2000 census to benefit from observing the 1990 effort, we are proposing establishment of a 2000 census planning office in fiscal year 1989. We began planning for the 1990 census earlier than ever before and, based on our experience to date, starting even sooner should pay real dividends, particularly in opportunities to employ new technologies.

In order to maintain the quality of our economic analyses, we are asking for increased funding for estimating the gross national product and the balance of payments.

For the National Oceanic and Atmospheric Administration (NOAA) we are requesting additional funds to undertake a major research and information initiative in the area of global climate change. This broad national and international program is intended to improve understanding and prediction of changes in the world's environment. NOAA will participate with other Federal agencies in carrying out this effort.

We will continue to modernize the National Weather Service. Production of the Next Generation Weather Radar (NEXRAD) will continue as planned. The Automated Surface Observing System (ASOS) will also proceed, but with more of the funding burden borne by other agencies. We will look at lower-cost options to replace the current information processing and communications system (AFOS).

Also included are funds essential to timely availability of geo-stationary and polar-orbiting weather satellites. Consistent with the plan approved by the Congress last Fall, we will continue procurement of one additional land remote-sensing satellite to be operated by the private sector under NOAA contract.

The request for the Patent and Trademark Office (PTO) includes additional funding for the automated patent system. An expert panel is currently reviewing plans and progress for the new automated system. We will take their findings into account before making any key deployment decisions. PTO will also maintain progress toward the goal of processing patent applications within 18 months by 1989.

The 1989 Commerce request contains no funds for the Minority Business Development Agency (MBDA). We will transfer MBDA to the Small Business Administration (SBA) as of October 1, 1988 and SBA has included all funding for MBDA programs in its 1989 request.

User Fees

As agreed in the bipartisan budget accord, our 1989 budget request does not include user fees which require authorizing legislation. As a result, we are proposing that the United States Travel and Tourism Administration (USTTA) be supported with appropriated funds in 1989 and that funding for the National Marine Fisheries Service (NMFS) be at the level of the President's 1988 request. The Administration will propose fee legislation for USTTA and NMFS effective in 1990 to support these programs.

Conclusion

Despite the skeptics and perennial naysayers, we, the Congress

and the Administration, have made progress towards reducing the budget deficit in a reasonable and responsible manner. This year's shortfall is estimated to be less than two-thirds of the 1986 deficit of $221 billion. We have shifted resources from marginal programs to areas of national need. We have instituted user fees to move the funding burden from the ordinary taxpayer to beneficiaries of special programs. We have allowed the private sector to assume responsibilities where it has particular expertise and experience.

The 1989 Commerce budget request continues on this path. We can maintain and expand vital programs if we are willing to reduce or eliminate programs that have outlived their usefulness. We can maintain an effective Federal presence if we allow private institutions to do what they do best. We can serve the public at large if we ensure that special interests pay their fair share.

In this the Department of Commerce's 75th year, we must focus more than ever on the original mission set down in 1913: "to foster, promote and develop the foreign and domestic commerce... of the United States." This is the central theme of our 1989 request. I look forward to working with you to achieve this goal.

Senator HOLLINGS. Mr. Secretary, you said that you were going to adhere to the Summit Agreement, and almost in the same breath said, "Of course, we have cut the EDA and Trade Adjustment Assistance." As an observation rather than question, let me indicate that we have had that proposal now for the eighth year in a row. Congress will continue the funding of the Economic Development Administration again. In the Trade Bill now before the President—I guess they delivered it yesterday—they are even quadrupling and quintupling amounts of trade adjustment assistance rather than cutting back on trade adjustment. I guess he can veto the Trade Bill, but the President didn't say that was the reason.

So we have got a difficulty there which should be understood by the broader picture. It is probably good, because no one can blame you for the broader picture. The broader picture is now with all of this trade and all that we are going to do, and Senator Rudman and I have been listening for years to different Secretaries and how they are going to computerize and how they are going to enhance exports and what we have got to do is get out to the trade fairs and we have got to speak the language, and we have got to do this and that. We have been hearing this for year-in and year-out, year-in and year-out.

I don't have last year's figures, but last year I was given these figures for 1986. Foreign companies now produce 42 percent of the semiconductors that we use in America; 55 percent of our apparel; 81 percent of the footwear; 48 percent of the telephone equipment; 46 percent equipment of the machines you use; 63 percent of the motorcycles, 38 percent of the photofinishing; 90 percent of 35 millimeter cameras; 100 percent of black and white televisions; 100 percent of consumer radios; 20 percent of steel; 66 percent of ferroalloys—you know these figures—27 percent of copper; 38 percent of oil; 31 percent of lumber; 50 percent of musical instruments; 41 percent of the toys and games; 70 percent of the fruit juices; 67 percent of the microwave ovens; 85 percent of the watches; 45 percent of the chinaware; 28 percent of the power tools; 30 percent of the sporting goods and there is over $10 billion in military equipment now.

When we look at that Defense authorization bill up in the Senate, we are buying $10 billion of it overseas. Let me put it in a different light. It is disturbing us in the Congress. Somehow, it is not working. If Senator Rudman and I wanted to go open up a plant and we came to you as the banker and said, "We want to borrow $20 million over a 10-year period," and you looked at the gadget and said, "Well, that is a pretty good gadget, but let's see you develop a market in a couple of years." You say, "That's right." You say, "Somebody can go right across the line in Mexico and bring that right back in, and copy your market in a couple of years, so we better make it a 5-year loan rather than a 10-year loan." Warren would say, "We really aren't going to get $20 million out of this in 5 years."

I am going to say, "Don't sweat it. We aren't going to put it in Manchester, NH or Charleston, SC. We are going down to Mexico."

That is why you have got five General Motors plants down in Mexico; five General Electrics; the largest RCA factory, now with 1,500.

The trade policy of America, I have to listen to these silly politicians up on the floor of the Congress, "Oh, you have got to get competitive. You have got to get off the golf course. Get off the golf course; get competitive; get productive."

U.S. COMPETITIVENESS IN TRADE

The Department of Labor has found who is the most productive industrial workers in the world. The United States is number 1; Japan is number 7. I am not worried about the productivity of our workers. I have got dozens of Japanese plants in my own back yard in Acque Maria and the rest, and we are not sending them back singing company songs. They are productive.

I have worked with your particular league of industrial executives for 30 years now. You folks are competitive as all get-out. What happens is you are so competitive, it is not just letting a few jobs; you just move the whole industry out. As a result, this very minute, over half of what we import into the United States of America manufactured is from multinationals overseas being brought back in.

So we are losing our industrial backbone. I could go into a lot of things. How would you stop it if you were king for a day?

Secretary VERITY. I think that has been stopped. The principal reason is the value of the dollar.

Senator HOLLINGS. I know the value of the dollar hasn't changed.

Secretary VERITY. The value of the dollar has changed substantially since the big drain of the early 1980s, and actually, Senator, I believe that we are in a more competitive position now in the United States than we ever have been. Exports are going up. Imports are coming down by volume, and I believe that we are going to reverse a lot of the things that you just mentioned.

Senator HOLLINGS. Exports went up. I don't have the exact figure, but we had it last month, 2 weeks ago, and I will get it, but imports went up more.

Secretary VERITY. Well, they went up on the basis of the price of imports because we have an affluent American that is willing to pay anything for an import, so that the value of the imports went up. The volume of imports stabilized.

Senator HOLLINGS. Yes, but we don't play games. You and I are good friends. Exports of $244 billion in 1986, and $274 in 1987. Now, where were the imports? I thought they were giving me something. They didn't give me the right figure.

TRADE DEFICIT

It went up that amount, but I know imports, because I got it. I used it; I heard it in a talk, and then I verified it. Because imports have gone up. What do you think the trade deficit is going to be for 1988?

Secretary VERITY. I think it will be down 15 to 20 percent. It is going to be down for several reasons.

Senator HOLLINGS. To what, do you think $152 billion? We had $177 billion.

Secretary VERITY. It was $171 billion in 1987.

Senator HOLLINGS. $171 billion.

Secretary VERITY. I think it could be down to around $140 to $145 billion in 1988; on its way down further in 1989.

Senator HOLLINGS. So you think that the solution is in place, as you see it?

Secretary VERITY. I think we have got a long way to go, because it took a long time to get to that $171 billion deficit. I think that is the cancer facing this society. We have been taking a look at it, as you know, Senator, to see what we can do, and if ever there was an opportunity for us to change the attitude in this country to encourage exports, it is now because of the value of the dollar.

You can make more money as a businessman by making a product in this country and shipping it to Germany than you can by shipping it across the State line. Americans, at least American business people, respond to the profitability potential.

EXPORT NOW PROGRAM

So what we are trying to do in the Department of Commerce through our "EXPORT NOW" program is to make the United States, and particularly small- and medium-sized business, aware of the opportunity that they have in the export market.

This program is the private sector and the public sector working together to encourage exports, because that is what is going to drive our economy this year and for the next several years to come. That program is working well. We are really pleased with what is going on.

I am not saying that that program is going to solve the problem. The basic thing is that the value of the dollar is such that we are competitive; American manufacturing has taken seriously the problem of quality. They are trying to improve quality. They are trying to make their products more attractive to the particular market that they are trying to capture, which we have never done before. We have never had an export mentality in our business community. All of that is adding up to the fact that the first 2 months of this year, exports are up 27 percent.

Now, that is a pretty good record after last year. So I am not saying that the problem is solved. I am saying that I think that the situation has stabilized and it is beginning to go in the direction that you and I would like to see it go in.

Senator RUDMAN. Would the Chairman yield just a moment?

Senator HOLLINGS. Sure.

Senator RUDMAN. Mr. Secretary, that is logical, and you can't disagree with your assumptions, I suppose, but there is just one problem: If the forecasts are correct and we are in for higher interest rates, and I notice the prime went up yesterday one half point to 9, and the inflationary cycle is apt to move up several points over where it has been over the last few years; higher inflation, higher interest rates, then the dollar, which many people who I respect still believe is overvalued by maybe as much as 15 or 20 percent even now, that it will be going the other way.

Then the scenario that you laid out goes into a cocked hat, and that is my concern, because that is what the forecasts are now in terms of inflation and in terms of interest rates. So that is just something we have to really consider if we are looking at some sort of a macro solution to the problem, which is, I guess, what we are all looking for.

VALUE OF DOLLAR

Secretary VERITY. I agree with that, but the value of the dollar will be driven by the market. Is that what you are saying?

Senator RUDMAN. That is right.

Secretary VERITY. That if we have interest rates start to move up, it can change the dollar towards the up side? I don't believe that we are in for anything like a big rise in interest rates. I think what is happening here is that we are pushing up towards capacity and so banks are reacting with moving up interest rates a bit.

I believe that this economy is going to remain strong. I think the dollar is going to stay at about the present level, and, as you say, maybe move down. There are not the pressures that are going to drive that dollar back up as they did in the early 1980s as we see it, so that this is a time to encourage American business to take a good look at the international markets, because the profit opportunities are better there than they are here.

Senator RUDMAN. Thank you.

EXPORTS VERSUS IMPORTS

Senator HOLLINGS. Mr. Secretary, I will put the accurate figure here, and there is no use to go back and forth on how much imports and how much exports. We know from hard experience over the years that the—Well, before I say the cancer is government, and I can prove it, in January of 1987, imports were $28,691,000,000, according to the Department of Commerce; and by 1988, it was $34,767,000,000, an increase of 21 percent. So imports are right up with exports.

In February of 1987, it was $33,724,000,000; and in 1988, it is $37,387,000,000. So those are the Department's figures, and you speak from hard experience when you observe that the cancer is government. The cancer isn't the mentality of America's business community doesn't know how to make money or doesn't get export markets. They are ex-

porting the entire industry. I never, up until about 6 years ago, saw an industry leave South Carolina.

I have been in the business of bringing them in. I have travelled all over Latin America. I was the first Governor that ever did in 1960. No governor had ever been down there. Luther Hodges went to Europe. I went down to Latin America, and then I went back over to Europe, and then he went down to Latin America, and we were competing with each other. I can get right to the point.

He and I competed, and he got Western Electric in North Carolina. I got Eastern Kodak, and I have still got it. But he still doesn't have Western Electric in Durham. They don't make the telephones, because I have been in Singapore, and that is where they are making the phones. Don't tell me about the American businessman don't know how to export. They export the whole blooming industry.

That is what I am talking about. When I come back home now, they said, "Governor," they still call me that, they said, "We are doing fine except we got to stay ahead of the curve in this international market; they only pay $1.85 down in Mexico. We have got to go."

So they have gone to Mexico. Pratt & Reed, made pianos up in Liberty, SC; that is up around your area. They said, "We enjoyed it in South Carolina and we made a lot of money." They have gone to Mexico.

I went to Elgin, IL. I renamed the town of Blaney, SC, Elgin, SC. You ought to see me down there giving them a flag and all this political hoopla. They don't make an Elgin watch in America. They increased their productivity 35 percent over the Elgin, IL facility. I got more glowing testimonials. But they have gone to Korea.

So when I hear somebody give me this lip, "Well, we have got to get export minded. We can really make money now that the American people understand." Man, that can change back and forth, and like in Korea, they are attuned more to the dollar. It is not devaluation and everything else like that.

I have found that the American business community is generally keenly competitive, and they watch every little move. I talked to the business community in the Far East. I used to meet with Motorola. They had 2,000 Japanese-speaking people in Japan for over 8 or 9 years and couldn't sell. Now they have got an associate kind of working, but they have been working. One, that they couldn't speak the language. Bob Galvin will tell you. "I had 2,000 of them speaking the language and couldn't get in."

No, they have been knocking on the door, and what happens is, let me go to one particular item. The export sales price offset, just to be specific. Under GATT, the deduction of the sales price for profits should be made. In other words, you try to sell the domestic price, and the major trading partners of the United States, including the European Economic Community and Canada, do deduct the profit from the sales price.

But under the administration of the Secretary of Commerce, you do not. It is a discretionary thing. Under the old Smith-Corona case, the judge there made the decision and said, "It appears to me not to carry out the intent of the law, but since discretion is allowed, we will continue to allow it."

It doesn't seem to be the intent of Congress, and we know that wasn't the intent of the Congress, because if I can deduct the profit, then I can sell under cost; I can dump, and I can capture that market. Why do you folks continue to do that?

Secretary VERITY. You and I have talked about this before.

Senator HOLLINGS. It is in the Trade Bill, and you said you were with me, and then I would go over to see Lloyd Bentsen, and he would say, "The administration opposes it. "

Secretary VERITY. I didn't say I was with you. I said what I would do, when I got back, is have my people fill me in on what it was you were talking about so I would understand it.

Senator HOLLINGS. It wasn't an accent, Warren.

[Laughter.]

Senator HOLLINGS. See, he can't get by anymore. He is down there now.

Secretary VERITY. All he can do is export me.

[Laughter.]

GATT

Secretary VERITY. I found out that you have an understandable position. I went to the exporters and importers association and found out that they don't support your position. They feel that that would be treating others unfairly and they would retaliate, and we would probably get ourselves in bigger trouble because the United States does as much in violating trade rules as everybody else.

So that this matter now is going to go to GATT. This is going to be taken a look at in GATT, and we will have a chance to see what will happen with your suggestion as to how to handle it.

Senator HOLLINGS. That is what we have been; like I say, I practiced Customs law, and you get the run-around. ATT controls less than 7 percent of our trade. You don't go to exporters and importers; you go to the American production, the manufacturing backbone.

Secretary VERITY. I did go to manufacturers.

Senator HOLLINGS. Unnecessarily, they are making hay out of it. That is the tail that has been wagging the dog. Everybody in business is so competitive that they move overseas, and you know what they get overseas? Protection. They are getting this.

How can they retaliate when this is exactly what Europe is doing? You know retaliation; they can't retaliate. So what they do when they go overseas is they not only get protection; they get all the lesser wages; they don't require whatever else you are going to require, maternity leave and day care, and a safe working place. They don't have an OSHA over in Korea. I have been there.

But that goes into the cost of production. That is our American standard. I am not belittling it. That is what we believe in. So I know what they do, but they go over there get that, and then they come back here and get political and hire Washington lawyers downtown to run around this room hollering, "Free trade, free trade. Let's don't start a trade war. We going to retaliate."

Our position is we are being retaliated against. We have got the richest market. We don' t have to worry about retaliation if we get into that game. We don't use it. The government sits there and acts like, when we come and try to carry out the congressional intent, and we pass again in legislation, and it is passed overwhelmingly in the Senate with 98 votes, and we still are studying exporters, importers and GATT. We didn't ask you to study exporters, importers and GATT.

We said, having studied exporters, importers and the GATT, we the Congress said, "This is the policy." You are the Secretary of Commerce, now in your discretion. It seems with all that consultation, consult the Congress. It is manifest what our intent is.

ANTIDUMPING

Secretary VERITY. Mr. Chairman, you must be happy with the fact that the Commerce Department over the last 2 years has handled antidumping cases better than ever before, and we are handling this problem of the products coming in here priced unfairly.

But to your point about whether or not the United States is losing out in this competition, you must be pleased with the fact that the Japanese are now making automobiles here; the Europeans are coming in and investing. It is not that people aren't investing in the United States in productive facilities; it just so happens that it is foreign countries that are coming in, because at the moment, our savings rate isn't such that Americans are reinvesting in their own country.

But the American market at the moment is a good, solid market. The Japanese are making automobiles here because they can make them more cost effectively here than they can in Japan. So that this is strengthening this economy.

We do have several things that are wrong. We have a lot of mandated benefits that does not make us competitive with foreigners, and we also have a budget deficit that is draining a lot of the resources of our country that we have to get rid of because that affects the trade deficit, too.

Senator HOLLINGS. I am going to have to yield, but let me make an observation. This is the committee that gave Lee Iacocca his $1.2 billion.

Senator RUDMAN. I wasn't here then, Mr. Chairman.

Senator HOLLINGS. You weren't there. He gets a $17 million salary, and now he is taking his K-Car down to Mexico. So we know where they are going. The ultimate is not just to get them to invest here; it is to get the Americans to stay here and retain our industrial backbone.

Secretary VERITY. I agree.

Senator HOLLINGS. What we know is when they invest in my State of South Carolina. We have an affirmative action plan and I have made visits to Tokyo to bring them in. But then they take the profits, and they are starting the research and development, the one advantage.

America's technology is about to go down the tubes or, rather, go over to the Pacific Rim and go into Europe because they are taking those profits now. We are going to go over the way of England if we don't begin to get competitive with our government and force these antidumping cases. The fact that they invest, that momentarily does the job, right. That is a given, but then the profits, instead of going back in, like what Armco is giving back to the communities, and you have seen it and I have seen it, and all the other American industry, they give that back to Japan.

George Cosmeski was over there last fall, and the Diet agreed on a $19 billion program, 19 graduate students, $1 billion graduate students. They know where they are headed. We are sitting around here and saying, "Don't worry. We have got the dollar. It is devalued. Oh, we have got a few little industries."

I am looking at the broader picture of where we are going to be 10 years from now and the America that we are going to have.

Secretary VERITY. I am happy you are looking at the broader picture, Mr. Chairman, because you are right. We do need more attention to technology and to encouraging it in this country and to commercializing our technology faster. The things that you are interested in we are very much interested in, too.

Senator HOLLINGS. Thank you.

I yield to you, Warren.

PROTECTIONIST LEGISLATION

Senator RUDMAN. Thank you, Mr. Chairman. I am very interested in this dialogue. The Chairman played a role of professor of international trade this morning. I think I will be the accountant and get into some more of the nitty-gritty that we have to deal with, since he has already taken all the questions I was going to ask.

I would make one observation, and that is that the Japanese ought to be very aware that when you can focus on one item and get enough people upset about it, that is when you are going to get some retaliation here in Congress that will suddenly move through here like lightning.

This whole beef argument, really, I know my constituents aren't affected. We don't produce beef in New Hampshire. It is not a parochial issue, but Americans watching their evening news find something basically unjust about the incredible number of products that we allow in here from Japan. We allow it; they come in, and we like them. Americans buy them.

Yet very small groups have enormous political power in that country, and agriculture is one. I think that for those of us who really believe that protectionist legislation is not in our interest, they misjudge the

Congress; they misread the Congress. They do not believe that that kind of an event, like the recent fiasco on beef and, I believe, some other agricultural products.

Secretary VERITY. Citrus.

Senator RUDMAN. Citrus, will not all of a sudden cause them to find, some sunny afternoon, some amendment, non-germane amendment whipping through the Senate attached to a bill greeted by acclamation by the House and have the President faced with a very difficult choice.

I say that not so much for you but for those who might be listening. Because I hear the rumblings already.

Mr. Secretary, this committee is going to meet again this afternoon with the Full Appropriations Committee in order to do what is called our 302(b) allocation, the allocation this subcommittee gets under the Budget Act. I have to tell you that it is going to be impossible for us to accommodate all of the priorities that you have. You are requesting sizable increases for the decennial census, for NOAA, Landsat, and the weather satellite programs.

I don't think we are going to be able to do what you want us to do without some other allocations within the Department. I hope that we will be able to work with you and the administration to try to fashion priorities that you want within the amount available.

DECENNIAL CENSUS CONTINGENCY FUND

I will give you an example of the kind of thing I am talking about. We were looking at some numbers the other day. You are asking for $230 million associated with the decennial census; $25 million of that is a contingency fund. Now, since the census is not going to occur until 1990, that is the kind of a thing that I don't think we ought to appropriate this year, because that $25 million might well help in some other area where you have a need.

We are bumping up against outlays as well as budget authority. So do we really need to appropriate contingency funds of $25 million here, there, and everywhere, or should we wait until the year in which it occurs and have the contingency fund appropriated next year?

Secretary VERITY. Senator, I think that the problem here is that to have this occur in 1990, a lot of things have to be done next year: opening offices, hiring people, et cetera, et cetera. To keep this on track, we have to be prepared for emergencies and unexpected events, such as fires, strikes and natural disasters. A contingency could be needed next year.

Senator RUDMAN. It will be actually needed the year before?

Secretary VERITY. Could be.

Senator RUDMAN. I mean, if it is needed, it will be needed next year?

Secretary VERITY. That is when most of the money and the planning and everything will occur. Actually, the census will be taken in 1990, but a lot of the costs and preparation will occur in 1989.

Senator RUDMAN. I am sure a lot of the costs will, but my thought was that the costs will occur in setting up the structure, but the real expenditure of money on people won't occur until 1990.

I would think that you could come back to us and say, "We now need that contingency fund in terms of outlays for 1990." I don't need a specific answer now, but it is the kind of issue your budget people ought to look at. Because I am going to tell you, the well is about dry right now, and we are going to have to do some major shifting.

You can get an answer for the record for that. That is something that we and staff would like to know.

Secretary VERITY. I will be happy to do that. I think that we do want to be sure that this is the best census that has ever been taken.

Senator RUDMAN. Nobody disagrees with that.

Secretary VERITY. I agree with you; the contingency would be for a 2-year period, 1989 and 1990. How that contingency should be properly divided, I can't tell you, but we will get that figure promptly.

[The information follows:]

DECENNIAL CENSUS

FY 1989 Contingency Reserve

We are requesting a contingency reserve of $25 million in FY 1989. Our request is to safeguard against the risk that substantial cost increases would impair our ability to complete 1989 preparatory steps in sufficient time to conduct the 1990 census. The FY 1989 President's Budget is based on specific assumptions about workloads, staffing availability and productivity, prices charged by and availability of goods from commercial vendors, the availability and productivity of automated systems, and other external policy changes. All of these assumptions are vulnerable to changes beyond our control and could increase the cost of the census operations.

In FY 1989, the following major operations are vulnerable to changes in one or more of the above factors and could require additional funding in order to complete the operation within schedule:

- Address coverage checks: If the initial urban address lists purchased from vendors and the rural address list developed from field canvassing are less complete than we have projected, the number of housing units that the U. S. Postal Service will add and/or subsequent canvassing operations will increase. This would result in increased charges from the USPS for adding addresses as well as increased field canvassing/reconciliation costs and costs for processing these additions.

- The questionnaire mailing package: We must procure the printing of the questionnaires in 1989 to ensure that the packages are ready to be mailed by Census Day 1990. The costs of producing the package are vulnerable to increases in the cost of paper, and provision of printing services by commercial vendors. If there is an industry strike or contractor facility or service failure, we may need to incur additional costs to complete printing on time.

- These operations must be completed in FY 1989 if we are to have an accurate mailing list and questionnaire package that meets decennial specifications. The time between the FY 1989 preparatory steps and Census Day is very short--in some cases less than six months. There is no time to postpone an operation due to funding constraints; therefore, a FY 1989 contingency is a critical safeguard for the 1990 census.

- We are also considering how much is needed for a contingency reserve in 1990, when peak data collection and processing occurs. We need to provide sufficient assurance that we can meet our legislative mandates for providing quality and timely census data. We believe that a contingency reserve is an important aspect of the 1990 census plan, to allow us to prepare for possible occurrences, such as a lower than expected mail response rate, increased workload due to a higher number of housing units than planned, and lower than expected productivity rates or decreased availability of competent staff.

NOAA REPROGRAMMING

Senator RUDMAN. On the Budget Summit, we reduced most of the appropriated accounts within the Commerce, Justice, State bill an average of about 5 percent. The NOAA reduction was a total of around $70 million. The conference report directed that the reduction be taken proportionately, and I will use language, "—in each program, project and activity."

The Department has had extensive discussions with OMB regarding the reprogramming to assess most of the reduction against items in the conference agreement, not included in the President's request, so-called Congressional pork.

Since discussions with OMB on the reprogramming began in January, when can we expect to receive it? In the absence of this reprogramming, has the NOAA general reduction been assessed equally against every program, project and activity at least to this point in the fiscal year?

Secretary VERITY. I think that what we have tried to do is just what the Budget Summit required—to take it evenly. In the case of NOAA, we are still in the process of reprogramming. Bill Evans, where are we right now?

Dr. EVANS. Currently, we have our reprogramming over in OMB, and we are currently in negotiations with them. I would expect that we will receive that very shortly. We are pushing very hard to make sure we get it over here.

Senator RUDMAN. That could be a very controversial reprogramming request. Therefore, it seems to me, and I am sure the Chairman agrees, that the earlier we get it, the sooner we can sit down and have some discussions about that. That is not going to be the normal pro forma reprogramming request that the Chairman sends over to me and says, "Looks okay to me, and, we are doing some shifting here."

This is a major departure from what we did last year. You cannot expect it is going to be just pro forma adopted. I would hope that you would get on that.

SENSITIVE MATERIAL TO EASTERN BLOC NATIONS

I want to turn to export enforcement. GAO published a report that detailed a dispute on-going between yourselves and DOD on export of sensitive material and technology to Eastern Bloc nations. Apparently, the two departments have been unwilling, according to the notes I have, to share information regarding the availability of such technology from non-U. S. sources, thereby establishing whether American firms can export the items.

My question is: Has that dispute been resolved? Is it in the process of being resolved? Because it is a dispute that has a lot of sides to it, and a lot of people here are interested in that.

Secretary VERITY. Well, I will give you an overall answer, and then Under Secretary Freedenberg to my back here, can go on to tell you the specifics.

But I have been very disturbed about the disagreements between the Defense Department and Commerce and the fact that a lot of the disagreements have surfaced over here on the Hill or in the media before they get to me.

So we have had several sessions with Secretary Carlucci, and about 6 weeks ago, we had one in which we took all the problems between us and put them out on the table and said, "Now, look: Let's solve them between ourselves and not by someone else."

We solved them all that day except for two. Those were given to specific committees, and one of those has been resolved. There is only one remaining. As to the specifics that you are talking about on availability of material from another country, Paul Freedenberg has been working with Defense on that, and I would let him answer that specifically.

Mr. FREEDENBERG. Okay. Essentially, we have been working on the standards of evidence. Defense and Commerce have similar data bases, but since much of this is highly sensitive—we are talking about code word intelligence—it is very difficult to move it back and forth. In fact, the intelligence agency rules prohibit that.

To some degree, you get some difficulty of who goes where. Put very simply, "Who travels to what security facility?"

I thought that was silly when it was pointed out and we are working out rules to resolve that. I think the tougher problem is, what are the standards of evidence for foreign availability?

The greatest difficulty in that area is how do you prove that there is foreign availability in the East without being there and witnessing their production lines? Which the Soviets, and say Bulgarians aren't particularly eager to do.

So we have been trying to work out agreeable guidelines. I think we are on the track. We have been able to use a lot of those guidelines for revisions of our international control lists. So the short answer is we have a much better agreement now. The GAO suggestions have been taken into consideration. We are working on that specific area.

Our Inspector General also looked at what the standards of evidence ought to be and had some suggestions. We are going to try to resolve that this year.

Senator RUDMAN. Mr. Secretary, I would simply suggest that sometime in the next 4 to 6 weeks, when all of these various issues have been resolved or, in fact, have not been resolved, that you might, in an informal way, because we don' t want to put any more burdens of reports on you, in an informal way, let the committee know. It is a matter we have been interested in.

JAPANESE DOMINATION OF TELEVISION MARKET

Last question, Mr. Chairman, a very brief additional question. You were quoted in the paper not too long ago as being somewhat critical of the perceived efforts of the Japanese to dominate the high definition television market. Your concerns, I think, are well placed based on history.

What can you do, and what are you doing to prevent them from just totally dominating that market and just moving in here and essentially being back in the situation where this huge new market for consumer electronics in this country is, again, supplied by the Japanese and other overseas companies?

Secretary VERITY. I am just as concerned about that as you are. That is another market that we can see disappearing, that the Japanese, by forming Japan, Inc., pull all the resources together and focus on the market to take it away from us. I have been working very hard since I have been here to try to open up the Japanese markets and to keep that from happening.

ANTITRUST LAWS

In the case of high definition television I was concerned that we didn't have the technology in this country to do something about it. I am not that concerned anymore. We do have the technology. It is a matter of getting an effort by the people in our industry to work on this in such a way, first, we don't violate antitrust laws, which is always a problem.

Senator RUDMAN. That is the problem, isn't it, in this area?

Secretary VERITY. That is the problem. So that we can pool some of the technology that is here, which I know is here, in order to fight. Where the Japanese are pulling it together; they are now going to dominate this market. We have to find a way to allow the technology in our country to be pooled in order to compete.

Senator RUDMAN. Mr. Chairman, I am all done. I would just like to comment that, as you know, I was personally very friendly with your predecessor, who I had a deep admiration for. The last meeting I had with Mac Baldrige before his tragic death, we spent an hour in my office talking about this very issue, not of high definition television, but the antitrust laws, because it is a matter which I have had some prior experience in.

I would hope that some of the initiatives that he wanted to bring forth—and I am not sure there is time left in this administration to really get that done—but that certainly, you ought to do some work on it so that the incoming administration has the benefit of that work. I believe the greatest inhibition on America competing against the Far East in the coming decade will be our Own antitrust laws, which I strongly support in many ways, but recognize were never designed for a world market.

Secretary VERITY. Not at all.

Senator RUDMAN. They were only designed for essentially domestic markets. I don't think there is anything more important that you could do than to leave, as a legacy, a plan and a legislative package built on Mac Baldrige's model that would have some way of improving that. That is very, very important.

I don't think you can compete with the Japanese in high definition television given the current state of the United States antitrust laws; I really don't.

Secretary VERITY. The high definition television is going to give us an opportunity to surface the problem. It will be done this summer. We have something going there that may point the way, but that is a $50 to $100 million market we can't afford to lose.

Ms. TUTTLE. May I say that Assistant Secretary Sykes is going to be attending a meeting on the West Coast with some of the major manufacturers on this very subject on June 6. We then propose to pull them in and have a meeting with the Secretary on what American manufacturers are doing in this area and what we should be doing.

Senator RUDMAN. Be careful you don't get them all in the same room so that the Justice Department indicts them.

[Laughter.]

Secretary VERITY. Then we might all go to jail, and you would have to come visit us.

Senator RUDMAN. Right.

Senator HOLLINGS. Senator as in Sasser?

Senator SASSER. Thank you, Mr. Chairman.

UNTIED LOANS

Mr. Secretary, I am sure you are familiar with the practice of a number of banks in allied countries, principally Germany and Japan, in which they are granting literally billions of dollars worth of so-called untied loans to the Soviet Union, to Cuba, to Libya and Vietnam.

Many of us, speaking for myself, view this with some degree of alarm. What is the policy of the administration regarding these so-called untied loans?

Secretary VERITY. I think that the issue here, one that occurred just a couple of days ago with a loan from a German bank to the Soviet Union so that the Soviet Union can purchase consumer products, is one we can't do very much about. That is their business.

That was a loan that was not subsidized. It was a loan treating the Soviet Union as if they were a developed country, so it was not as if they were treating them as a non-market economy, even though they are a non-market economy. That is a private German bank. It is not tied into the German government, so that it seems to me that that is a deal between a private sector bank to loan money to the Soviet Union to buy products in Germany for Soviet consumers, and I have a hard time seeing how we, at the Commerce Department, can do anything about that.

TRADE WITH SOVIET UNION

Senator SASSER. I suppose my question really is, Mr. Secretary, what is the administration's view on this, and what should our policy be in this regard? I bring this up because I questioned the Secretary of Defense, Mr. Carlucci, about this 2 days ago when he appeared before the Defense Appropriations Subcommittee, and the Secretary of Defense indicated that he viewed this whole matter with some alarm; that he felt the business of the untied loans to the Soviet Union could be used by the Soviets to finance some of their military adventures around the world, to finance some of their satellites around the world, and when you look at it from the point of view that the Soviets have a very limited foreign exchange base, around $30 billion annually, principally the sale of oil and gas, gold, and arms, almost all of this $30 billion is dedicated to the purchase of imports or the servicing of their external debt.

When they can access western banks for substantial amounts of money, then this is of great aid to them. It appears to me that we ought to use the opportunity of the Toronto Summit to express our grave concern over this issue to our allies if indeed, this is a concern of the administration.

Secretary VERITY. I think that would be of concern to me, Senator, if the United States were involved in making those kinds of loans, which we are not. The amount of trade between the United States and the Soviet Union is as close to zero as you can get. So I don't believe that we are jeopardizing our defense in any way by the very small amount of trade we have with the Soviet Union.

I think the administration believes that the Soviet Union is trying to restructure itself and to tend towards a market economy, and as such, would join the other nations of the world in more peaceful trade. I believe the administration feels this is a good move.

The President has said that he feels that increasing non-strategic trade with the Soviet Union would be a good idea. At the moment, not much of that is happening, and I don't expect that much will happen in the near future. I believe that increased trade, properly financed, and under proper terms, is a good thing for our country.

Senator SASSER. Well, I don't dispute that, Mr. Secretary. My concern is this: We are hearing a lot of conversations about the Soviets, and I hope it is true, and I fervently hope it is true, that they are trying to

shift to a market economy, that we are moving into a period of an era of good feelings to some extent with them and they are trying to reform and restructure themselves, not just economically, but maybe even some minor political reforms. But the proof is in the pudding.

Secretary VERITY. Absolutely.

INFLUENCE OF SOVIETS ON FOREIGN GOVERNMENTS

Senator SASSER. And there has been no cutback in Soviet weapon production whatsoever. They still continue to be the largest manufacturer of weaponry in the world. Now, it appears to me it will be a problem for us when they can turn to Western European banks for credit, for foreign exchange, untied loans, and I fear we are going to get in the posture where the debtor is actually exercising undue influence over the creditor.

Now, we get into a situation here where the Soviets owe very substantial amounts of money to western European banks and principally, West German banks. Then I think they are going to be in a posture to exercise undue influence over perhaps the policy of the West German government.

We now see that on the basis of per capita expenditure or percentage of gross national product, the West Germans are doing less than many of our other allies in Western Europe, even though they are on the front line. My point is this: I think this administration ought to take a very strong line against these untied loans to the Soviet Union until we can see some concrete evidence that the Soviet Union is, indeed, changing its view, and these are loans that have been made, it appears to me, to encourage trade, if it is to encourage trade, not between the United States and the Soviet Union, but between the United States and others of our allies, and it will be a further pressure point to weaken the cohesion of the alliance. That is what prompts my question as to what the administration's policy is.

Secretary VERITY. The administration's policy, I think, is supportive of what you are talking about. The administration's policy is that until there is progress in arms control, until there is progress in reduction of regional conflicts, such as Afghanistan or Angola or wherever it might be, and until there is progress in immigration and human rights, there will not be any expansion of trade nor the kind of things you are talking about.

I think that the administration is going to the Summit with those as the priorities, and at this point in time, the only progress that has been made in regional conflicts has been in Afghanistan, and they are starting the withdrawal today.

Whether that will occur is something we all will watch. I think you have to have that happen, and if it does happen, we ought to be happy about that, and we are now moving with the Soviets on other regional conflicts with which we have seen no progress.

But I would agree with you that we ought to be very cautious; we ought to be sure that there is progress being made in those areas. I still

would like to make the point that what the Western Europeans do in trade is their business. The amount of business that we do with the Soviet Union is very small.

Senator SASSER. It is less than 3 percent.

Secretary VERITY. It is around $500 million in manufactured goods, about $1 billion or a little more in grain. The amount of grain the Soviets will purchase this coming year is going to be less than last year.

Senator SASSER. Less than 2 percent in loans——

Secretary VERITY. Yes.

Senator SASSER. ——come from the American lenders. But Mr. Secretary, rather than just throwing up our hands and saying, "Well, what the West Germans do is their business, or what the Japanese do is their business," we can improve these private issues on the part of private banks. I think we can. I am not saying that we can put a stop to it completely, but I think we can certainly express our reservations about it at international conferences.

I think the United States can chill this whole aspect of untied loans with the Soviet Union until we see some concrete progress on their part. Mt fear is that the Department of Commerce may be tacitly encouraging this by silence. I fear the administration may be tacitly encouraging this by silence. That is what prompted my question as to what is the administration policy in this whole matter.

Secretary VERITY. Senator, my belief is that the United States is the only country that is really linking these kinds of things with trade, and I think that this President and this administration is doing a good job in that area. However, I can tell you that West Europeans do not link these kinds of items with trade.

Therefore, it is very difficult to have any impact on what you are suggesting. Doing this in conferences, talking about it, yes. But I don't believe it will be very effective in changing the cultural method of trade that occurs in European countries.

Senator SASSER. No further questions, Mr. Chairman.

Senator HOLLINGS. Thank you. Senator Kasten?

SOVIET IMMIGRATION

Senator KASTEN. Mr. Chairman, thank you. I want to associate myself with the views of the Senator from Tennessee. We were both in the Defense Appropriations Committee meeting, and basically, Secretary of Defense Carlucci, in response to Senator Sasser's question, said he was concerned, but it was difficult to work with the Soviet Union and to put pressure on the Germans.

But he expressed a concern about this overall effort, and some of us in the past have been concerned about loans to Poland.

In the context of your trade mission to the USSR, I have got a couple of clips from the Journal of Commerce. It seems like there is an awful lot going on with Chevron, Eastern Kodak, Ford, Johnson & Johnson, Nabisco, and Armond Hammer agreed to build plastics factories worth as much as $200 million.

In this context, was the issue of Soviet emigration raised with the Soviets during your trip? If it was, what kind of response did you get?

Secretary VERITY. First, Senator, I would like to clarify that there were two groups in the Soviet Union that occurred at the same time. I led an American delegation to meet with the Soviet commercial people to discuss what the two leaders asked us to do in the communique that was issued after the last summit, in which they said, "We think our commercial people should get together and make some concrete proposals as to how we could have a basis of trade, non-strategic trade, between our two countries."

That is what I went over to do, and I took a very distinguished American delegation with me from Agriculture, National Security, et cetera. At the same time, the Trade Council met, and there were 400 to 500 American businessmen there who were over there to try to make deals with Soviet enterprises. What you are reading in the Journal of Commerce I had nothing to do with. These are American companies who are attempting to find a way to make a buck, if they can, in the Soviet economy.

How successful they are going to be, we don't know. From a government point of view, the President has said, "We favor an increase of non-strategic trade with the Soviet Union." My purpose was to set the parameters of trade in which I told both Prime Minister Reskof and General Secretary Gorbachev that "the policy of the United States was simply that trade didn't drive anything. Other things will drive trade; that until there is progress on arms control; until there is progress on seeing that they are reducing regional conflicts; until there is progress on emigration, nothing is going to happen on trade."

I did tell them that I didn't think much would happen in trade generally until the Soviets had most favored nation, because they will not be able to sell products here if they pay a 25 to 35 percent tariff penalty. I told the General Secretary, if he is serious about trade and he wants to have most favored nation, the way to do it is to do it through opening up emigration. If he is serious about Glasnost, why didn't he apply Glasnost to emigration?

That would mean no quotas, no family permission, and he gets hung up on the fact that people have been in sensitive positions. I said, "Wouldn't it be reasonable that if they have been out of that sensitive position for 5 years that they be free to emigrate after that?"

I said, "I think, Mr. General Secretary, if you would make such a statement and then prove it through increasing emigration over a period of time, that both the administration and the Congress would look with favor on a waiver. That is the only way you are going to get anything, because the Jackson-Vanick amendment is on the books. The American people are a nation of immigrants, and they are all for free emigration." Until that occurs, I don't think much will happen.

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OPENING EMIGRATION

I argued with the Prime Minister, who said, "Why are you bringing up things that happened 15 years ago?" The General Secretary said, "You are getting into internal matters that I don't think we ought to discuss," and yet they both wanted to discuss it. I hope something will occur on opening up emigration, and if so, that would be a step forward.

Senator KASTEN. Would you say therefore, you are optimistic that the Soviet plans to increase emigration levels to facilitate trade between our countries? The Congress used trade and emigration as a link, and we have legislated that.

Secretary VERITY. I have heard that.

[Laughter.]

Senator KASTEN. Now, from your discussions, do you believe that the Soviets understand that link? They might not like it, but do you believe that there are plans to increase emigration levels to facilitate trade between our countries, that they are in the process now of opening up further?

Secretary VERITY. Well, they did substantially increase emigration last year. They went from 1,000 to 8,000 emigrants, which we have said is not enough.

Senator KASTEN. And nowhere in comparison to where we were a few years ago.

Secretary VERITY. So I don't know what is going to happen, Senator. I have to say that I am convinced in my own mind, both of those two leaders now understand the linkage between emigration and trade. I don't know if they knew it before; they probably did.

But I can assure you they know it now, and I hope that something will happen, but I don't know that anything will.

Senator KASTEN. Thank you, Mr. Chairman.

Senator HOLLINGS. Warren?

NOAA GENERAL REDUCTION

Senator RUDMAN. I just wanted to go back to a question I asked earlier. I asked a question about the NOAA reduction and whether or not it was taken proportionately in every program, project and activity. I asked had they been assessed equally. I believe the answer was yes.

I notice that we have a copy of a NOAA memo from Rodney Weiher, who is the Controller, dated April 21 in which he advises his assistant administrators that the reprogramming proposal has been tentatively approved, but at the end of it, he says, "You are advised to verify that the amount shown above—" and he shows the amounts "—and on the attachment are available to be reprogrammed. Further, you should take action to assure that these amounts will remain available until the reprogramming issue is resolved."

That appears to be inconsistent with your answer. It is amazing, but we get all of your memoranda.

Ms. BULOW. Before we get them.

Senator RUDMAN. Are you aware of that memorandum?

Mr. BROWN. I am aware as we responded that yes, the way the budget is passed, the cuts are taken across the board, and as you well know, we have been discussing with OMB for some time shifting some of those cuts to other areas.

Senator RUDMAN. But this "remain available" is inconsistent with my question and the answer I got. Would you not say that is inconsistent?

Mr. BROWN. There was no direction from the Department to reserve money.

Senator RUDMAN. Would you please check into that and inform us for the record about the April 21, 1988 memorandum. We would like to know about it.

Secretary VERITY. Let's have the head of NOAA give you a quick answer.

Dr. EVANS. I am familiar with it. One of the reasons the memo went out, Senator, was that shortly after I had my hearing before this committee I went into the process of looking over our people, making sure that we kept our options open, since I wanted to pass on what I received from this committee to my people and the administration. We are in the process of doing that, and that is a standby memorandum that went out to the assistant administrators, because a lot of these particular programs are statutory, which I believe I pointed out to this committee, and some of them are not. This is the route.

I certainly will go back and get more elaboration on that for you.

Senator RUDMAN. I would appreciate it. It is a long series of correspondence that we have here that seems to detail this whole reprogramming battle and the options being kept open by everybody. But just remember that you are operating under a C.R. that has a statutory mandate in it, and until a reprogramming is approved, and it may not be approved in total—I can't say it will or it won't be, but it may not be in total—it would be very poor policy and not looked on with great favor by this committee or our counterpart to be doing some of the things that I think I read between the lines are suggested here. I just want to make that point.

Dr. EVANS. I will make sure that my files are as complete as yours.

Secretary VERITY. It helps us to know. Because there is too much at stake.

Senator HOLLINGS. You should learn in Washington that the ship of state leaks from the top.

[Laughter.]

CENTERS FOR THE TRANSFER OF MANUFACTURING TECHNOLOGY

Senator HOLLINGS. Briefly, Mr. Secretary, on the $5 million that we had appropriated in this year's budget for the Centers for the Transfer of Manufacturing Technology. We estimated that to make a viable center would require about $1.5 million. We had in mind, then, three centers. We started off with ten, but budgetarily, we had to cut back on it to three, and $500,000 to complete the $5 million allocation of 18 positions in the new Institute of Standards and Technology.

I understand that you are proposing to use only $2,912,000 for the grants and some $2 million for the Institute costs. How does that happen? I mean, why such high costs there? Do you know, or you can give us an answer later.

Secretary VERITY. I would like to give you the answer that is my understanding on the breakdown of the figures.

Senator HOLLINGS. Yes, sir.

Secretary VERITY. I am all for these three, and we have sent a request to OMB to put these into the Federal Register.

Senator HOLLINGS. How long has it been there, at OMB? No regulations have been issued. This is May, and regulations have yet to be issued. When do you get with OMB?

Secretary VERITY. We have to get OMB approval of that before we can go forward. So we are pushing. We are trying to get two of the centers approved before October 1 and one more before the end of calendar year. We want to get those three going.

Senator HOLLINGS. How long have they been with OMB?

Secretary VERITY. April 18.

Senator HOLLINGS. We just got it over there.

Secretary VERITY. Not just. They have had it about 3 weeks.

Senator RUDMAN. Around this town, that is "just".

[Laughter.]

Senator KASTEN. At OMB.

Senator HOLLINGS. Let's get the regulations on that.

Secretary VERITY. We sent somebody over there yesterday.

[The following was subsequently provided:]

CENTERS FOR TRANSFER OF MANUFACTURING TECHNOLOGY

Four hundred thousand dollars has been assigned to NBS program management and administrative expenses, leaving $4.6 million for the start-up of three centers. Two hundred thousand dollars will be used per center for NBS staff working directly with the center on the transfer of technology and $1.3 million per center for cooperative agreements to be spent by the centers.

The fiscal year 1989 budget reflects no funds for the program in fiscal year 1989 and the cost detail reflects how the $5 million would have been used in 1989, including full-year costs of the 18 positions, had the program been operated at that level. The fiscal year 1988 budget will be obligated as described in the preceding paragraph.

TAILORED CLOTHING TECHNOLOGY CORPORATION

Senator HOLLINGS. You want to look closely and follow through with your own testimony about technology and its value. We are competing with the Peoples Republic of China. They have appropriated $440 million to modernize for 553 garment factories by 1990.

Here, we have got a little effort going here at the beginning of the 1980s with the industry itself. The industry is always claimed to be lethargic, and it doesn't want to invest any money and they have got to modernize and computerize and "electronilize" and "data processize" and everything else. So we get in there $30 million over the last 6 years, 50/50, the industry 50, and your Department 50 percent, and the $30 million, where the Chinese are putting up $440 million, and you for

technology, your underlings that you haven't caught up with yet have eliminated $3,360,000 for the Tailored Clothing Technology Corporation, known as TC squared. It is over in North Carolina State over in Raleigh, but it is an outstanding endeavor and very helpful to the apparel industry.

We got that in cooperation with organized labor. You know the argument about when you do that, you lose so many jobs, if we computerize and put in improved technology. So we need your support from the Secretary's level, because we are talking about technology, and just a modest amount like that, bringing the industry all in and even organized labor endorsing it, we ought continue that move rather than eliminate it.

Secretary VERITY. You have to be pleased, and I am pleased, that the textile companies are making massive investments in new technologies, and that is where I think it ought to come from. I think it is fine to have a joint effort of government and the private sector, but where the big change is coming and why the textile industry is doing so well, is that they have made some investments over the last few years in the best technology in the world.

That really pleases me, and I know it has got to please you. Because of all of this, those companies down there have a much brighter future than they ever had. I want to see them keep putting money into research, improving themselves, but I don't believe that massive Federal programs will do it. I think this particular one is modest.

I don't know why we cut out $3 million. I will take a look at that for you. But I am really pleased with what the textile industry has done as an industry, individually.

Senator HOLLINGS. The industry has put in $20 million nearly; it is $19.6. I am talking about in the last 7 or 8 years now, since 1980. It is $19.6 billion in modernization. They really have put in money.

Secretary VERITY. They really have. That is what counts.

ANTIDUMPING

Senator HOLLINGS. Now that you read there is a 55 percent saturation of off-shore imports, meaning dumping. They have got many a dumping case. That is how I know. There are many dumped cases. I can go to Darwu in Puson, Korea for about $1.35 an hour and no overtime, no health care and all the other things.

About the only way I can compete is to enforce my dumping law. Each year, this continues to go up, and while they have momentarily profited, last year, they are already off 6 percent this year, whereas all manufacturing is up 14 percent this year. So we are already on the down grade again.

So you, the man running the industry, it doesn't pay for you to continue to put good money after bad while it is continuing to diminish. I can give you the list. We have lost 23,000 jobs already this year, in 1988.

The reason they have done well, as you said, is they continue to eliminate; they put in the money in the new machinery, but they fired all the workers, and we have got far less industry.

Secretary VERITY. Also, Mr. Chairman, I assure you that we will take care of any antidumping suits and carry them out, because that is where we can stop that kind of thing.

Senator HOLLINGS. You can do it under your discretion.

Secretary VERITY. That is right.

Senator HOLLINGS. Don't ask the fellow who is making the money on the violation. You go ask the exporters. Man, they have got more people representing Japan in this town than representing the United States, literally.

Secretary VERITY. I think you are right.

Senator HOLLINGS. I know it. I can give you the list. I keep a running count, 37 former Senators and Congressmen. As soon as a bill goes in, my bell rings. I said, "Keep that Japanese crowd out." I don't bash Japan, because it is working, but it is not being fair. Business isn't fair; business is profitable.

We sit around moaning and groaning about being fair. We have got to compete with them. Make it to their economic interest, and they will do business.

Secretary VERITY. I have been spending a lot of my time, Mr. Chairman, on opening up their markets.

Senator HOLLINGS. I commend you for it.

Secretary VERITY. We finally have one on public works that is going to be opening up about $17 billion of their construction market, which they told me last November they would never open to us. We have now got it open; at least we have got our foot in the door. I am sure the American contractors will now push that door open a little further, I hope.

I take it that you would like me to get out of here.

Senator HOLLINGS. We have the United States trade representative waiting. We have got some questions. We will keep the record open. We do appreciate your being with us this morning.

The subcommittee has received a resolution from the Council of the California Library Association opposing the grouping of all Asian and Pacific subgroups together under a single category in the 1990 Census. The letter will be made a part of the record.

[The letter follows:]

CALIFORNIA LIBRARY ASSOCIATION
717 K STREET • SACRAMENTO, CALIFORNIA • 95814 • telephone (916) 447-8541 • MARY SUE FERRELL, executive director

April 28, 1988

The Honorable Ernest Hollings
Senate Judiciary Subcommittee
U.S. Congress
SD-224 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Hollings:

I wish to inform you that the Council of the California Library Association adopted a resolution in opposition to the Bureau of Census' plan to group all Asian and Pacific subgroups together under a single category in the 1990 U.S. Census and urges the Bureau to modify the 1990 form to list Asian subgroups separately.

Sincerely,

Mary Sue Ferrell

Mary Sue Ferrell
Executive Director

Enclosure: Council Resolution 216

CALIFORNIA LIBRARY ASSOCIATION
717 K STREET • SACRAMENTO, CALIFORNIA • 95814

No. 216

Council Resolution

RE: Identification of Asian/Pacific Islanders on the 1990 Census

WHEREAS, The Department of Commerce's Bureau of Census is mandated to collect accurate, complete, detailed data on all segments of the US population; and

WHEREAS, The Bureau of Census has proposed a significant change on how and what detailed data on the ethnic origins of some Americans will be collected; and

WHEREAS, Persons who depend on detailed census data for program and service planning as well as Asian Americans and their leaders throughout the country are gravely concerned about how distortion and dilution of data about Asian Americans will impact programs at all levels of government, for members of the Asian or Pacific Islander communities; and

WHEREAS, California libraries depend on accurate, detailed, complete census data on the California population in order to develop supportive library programs for all California; and

WHEREAS, Such data may no longer be collected if the proposed change is implemented; therefore be it

RESOLVED, That the California Library Association state its opposition to the Bureau of Census to group all Asian and Pacific subgroups together under a single category in the 1990 US Census; and be it further

RESOLVED, That the California Library Association urge the Bureau of Census to modify the 1990 form to list Asian subgroups separately; and be it further

RESOLVED, That copies of this resolution be sent to the Secretary of Commerce, the Director of the Bureau of Census, members of the House and Senate Appropriations Subcommittees on Commerce, Justice, State, and Judiciary and Related Agencies, the California delegation, and the news media.

ADOPTED by the Council of the California Library Association this 19th day of February, 1988.

President

ATTEST: Mary Sue Ferrell
Executive Director

SUBMITTED QUESTIONS

Senator HOLLINGS. I have some additional questions, as do other members of the subcommittee, that we will submit for response in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing.]

QUESTIONS SUBMITTED BY SENATOR HOLLINGS

BUREAU OF THE CENSUS

1990 DECENNIAL CENSUS

Question: In the Appendix (IF-7) the comment appears that "The 1989 budget provided for...completing the opening of 11 processing offices..." It is the subcommittee's understanding that the Census Bureau is considering reducing the number of processing offices for the 1990 Decennial Census.

Would you provide what the estimated cost would be if the Bureau decides to use 11, 9, 7 or 5 processing offices? Please provide these estimates showing the costs by the following categories: management and personnel, space, ADP equipment, maintenance and technical support, other equipment and supplies for fiscal years 1989 through 1993.

Answer: The attached table provides a summary of the Census Bureau's estimated costs for 11 processing offices for the 1990 Decennial Census. These costs include the ADP equipment acquired through the Data Processing Systems Activity. The President's FY 1989 budget assumes 11 processing offices for the 1990 Census. The Administration is preparing updated estimates for the 1990 Census for FY 1988 and FY 1989 which will consider changes to the number of processing offices as well as other actions needed to stay within the President's budget. These will be forwarded when completed.

Question: Considering that the 1990 Decennial Census is less than 2 years away, when will the Bureau decide on the number of processing offices to be used? Could you provide the needed time periods to complete the phases of acquiring and preparing the space for a decennial census, including the time needed to solicit bids, evaluate bids, renovate space, and install equipment?

Answer: The Census Bureau has opened two processing offices. The Kansas City office is now processing the dress rehearsal results; the Baltimore office, along with the Kansas City office, will process the prelist data.

The Census Bureau now has five processing office sites in the space acquisition process--Jacksonville, FL, San Diego, CA, Albany, NY, Austin, TX, and Jeffersonville, IN.

Question: For a GAO report issued in May 1987 the Census Bureau had provided an estimate of $371.1 million representing the maximum potential cost to complete the geographic support system for the 1990 Decennial System.

In 1982, the Bureau had forecasted the system would cost $194.5 million. Would you tell the subcommittee what the latest cost estimate is for the system? Have any features in the system been deleted? If so, please provide a list of these features and their estimated cost. How much has been spent through fiscal year 1987 and what is the estimated cost for fiscal year 1988 through 1992 by year? What plans have been made to maintain the automated geographic system for census work beyond the 1990 census, and what is the estimated annual cost to maintain the system after its development?

Answer: The Census Bureau currently estimates that the maximum potential cost to complete the geographic support system for the 1990 Decennial Census is $345.1 million. This estimate is based upon actual obligations through fiscal year 1987 of $105.9 million, and estimated maximum potential additional costs for fiscal years 1988 through 1992 of $239.2 million, as shown below by fiscal year:

(Dollar Amounts in Millions)

Fiscal Year...	1988	1989	1990	1991	1992
Estimate.....	$53.66	$62.0	$45.09	$59.81	$18.66

We have not made any changes to the capabilities of the system; the current cost estimate represents the same capabilities as reported in the 1987 GAO report.

We are discussing with other Federal agencies, such as the U.S. Geological Survey and the Federal Highway Administration, various methodologies to maintain the automated geographic system data base. Our mutual objective is to eliminate any duplication of effort. Until we reach agreement on a maintenance strategy, we cannot provide a firm estimate of the annual maintenance cost.

Question: Early in the decade the Bureau estimated the cost of the 1990 Decennial Census at $1.8 billion, in 1986 this was increased to $2.6 billion. Could you please provide the Bureaus current estimated cost?

Answer: The $2.6 billion estimate of two years ago remains our cost estimate for the 1990 Decennial Census.

Question: A major part of the cost for the 1980 Decennial Census was for coverage improvement programs. Would you provide a listing of the coverage improvement programs planned for the 1990 census along with the associated estimated costs and benefits for each program?

Answer: We will spend about 10 percent of the ten year budget for the 1990 census on "Coverage Improvements" programs. This also is what was spent for comparable operations in the 1980 census.

The 1990 operations for coverage improvements include the field canvassing and postal checks of the precensus address list to identify the entire housing inventory by their accurate mailing addresses; development and maintenance of an automated address control file to monitor the enumeration status of every housing unit and to ensure that we have a questionnaire for each one; review by local officials of the census housing counts to ensure the completeness of the address list; and the occupancy status verification of housing units reported by census enumerators as being vacant.

Question: It is our understanding that in July 1987 the Bureau decided to convert about 10.5 million housing units from prelist to a "late prelist" operation (update/leave) in FY 1989. This decision was influenced by several factors--the ability to develop good mailing addresses for certain types of housing units, a revised estimate of activities necessary to produce prelist maps, and budgetary considerations. In view of the Bureau's decision, could you provide the FY 1988 budgetary impact of moving these units from prelist to late prelist? Also how will the Bureau use the FY 88 funds that were to be used for prelisting these 10.5 million housing units?

Answer: We did convert about 10.5 million housing units from a Mail-Out/Mail-Back to Update/Leave/Mail-Back methodology and an additional 2.0 million units from Mail-Out/Mail-Back to List/Enumerate methodology, because we did not believe we could develop valid address lists for purposes of mail delivery in these areas. As a result, these addresses would not need to undergo the Advanced Post Office Check in FY 1989, so there was no need to conduct the Prelist of these areas as early as the other Prelist areas.

The FY 1988 funding associated with the prelisting of the 10.5 million housing units became part to the $25 million cut imposed by the Congress in our FY 1988 budget.

CENSUS LIBRARY

Question: Last year we heard that the Census Library was going to be contracted out under A-76. When the staff inquired we were told it was pending. Recently we learned that the library was contracted out to an 8(a) minority small business.

While I have long-supported the 8(a) Program, Section 608(a) of the Continuing Resolution maintained the long-standing reprogramming notification requirements that requires 15 day notice of any contracting out or privatization of any functions or activities presently performed by federal employees. This committee never received any notice that the Census Library was going to be contracted out, 8(a) or otherwise.

When was the library contracted out to the 8(a) firm?

Answer: The contract was effective December 1, 1987.

Question: To what firm was the library contracted to and what is their background in library work?

Answer: The contract was let with:

Labat-Anderson Incorporated
1111 19th Street, North
Arlington, Virginia 22209

The company was incorporated in 1979. It is a professional services organization which specializes in library and technical services; information management facilities and operations management; environmental impact analysis; and research and publications. The company has provided library services for the Environmental Protection Agency (EPA) and EPA field operations for several years.

Question: Why was the Committee not notified pursuant to the requirements of the law?

Answer: Our FY 1988 President's Budget notified the Congress of our intention to contract out the library.

We did not reprogram to accomplish the contracting out. We merely implemented our FY 1988 President's Budget, as presented to Congress in January 1987.

Question: Who was the official who authorized the contracting out without notifying the Committee?

Answer: No one knowingly contracted out without notifying the Committee. We believed that presentation of our intention to contract out the library in our FY 1988 budget met the notification requirements of the committee.

However, we will implement procedures to ensure that the 15 day notification is carried out regardless of information presented in Congressional budget submissions.

Question: What was the cost of the library before it was contracted out and what will the cost be under the 8(a) contract?

Answer: Before contracting out:

Direct Salaries.....	$462,953
Overheads, @ 44.5%.....	206,014
Total.....	$668,967

1st Year Contract Cost..... $531,834

Question: Please list all the library employees as of June 1, 1987 by job title, grade and salary in the library and their job titles, grades and salaries in the positions to which they have been reassigned?

Answer:

Name	Old Title	Grade	Salary	New Title
Betty Baxtresser	Admin. Libr.	14	$54,473	Retired
Marty Taylor	Librarian	12	42,341	Info.Spec.
Catherine Crusan	Secretary	5	19,268	Secretary
Grace Waibel	Supv. Libr.	12	37,997	Info.Anal
Stephen Balanda	Librarian	11	33,514	Prog.Spec.
Jeffrey King	Librarian	11	32,608	Info.Mgt. Spec.
Doris Brown	Libr. Tech.	7	22,030	Computer Assistant
Gladys Davis	Libr. Tech.	7	19,582	Mgt. Asst.
Arlene Spriggs	Libr. Tech.	7	20,194	Libr. Tech.
James Thorne	Libr. Tech.	7	22,030	Libr. Tech.
Mary Williams	Libr. Tech.	4	14,574	Printing Clerk
Elwynda Chapman	Supv. Libr.	13	46,473	Program Analyst
Michael Wolfson	Librarian	11	34,420	Data User Serv. Spec.
Polly Gordon	Libr. Tech.	8	24,401	Mgt. Asst.
Pearl Jones	Libr. Tech.	7	21,418	Mgt. Asst.
Charles Weaver	Librarian	11	33,514	Retired
Justine Mikkelsen	Libr. Tech.	7	23,866	Mgt. Asst.
Charmae Taliaferro	Libr. Tech.	7	20,806	Info. Asst.
Connie Lattimore	Libr. Tech.	7	19,606	Mgt. Asst.
Jean Slagle	Clerk Typist	4	14,280	Clerk Typist

All employees maintained their existing grade and salaries.

Question: Under the minority 8(a) contract now in force, what is the women, racial and ethnic composition compared to the composition of the library staff as of June 1,1987?

Answer: As of June the Library was staffed with 20 employees; 15 females, 5 males and 9 racial/ethnics. The contract calls for a staff of 15; however, only 14 are on board. The composition is 11 females, 3 males, and 7 racial/ethnics.

CENSUS WORKERS

Question: Last week the Census Bureau announced that it was going to recruit 35,000 temporary workers to prepare master address lists for the 1990 Census. That prompts me to inquire about the selection of the management of the 1990 Census. When the 1980 Census was taken I had a little disagreement with the Carter Administration with Regard to the selection of the managers.

Do your plans for the 1990 Census allow for the Senators to participate in the selection of the state and district managers?

Answer: There are no plans to use a political referral system to fill the managerial and supervisory positions for the 1990 census. We will select persons for these positions on the basis of employment experience, test scores, and interviews.

MERGER OF ASIAN AND PACIFIC SUBGROUPS

Question: Why is the Bureau planning to group these subgroups?

Answer: Our plan for collecting 1990 data on Asian and Pacific Islander populations will allow identification of more Asian and Pacific subgroups and to publish data on these subgroups earlier. Plans are to collect and publish data on the total Asian and Pacific Islander population and its subgroups such as Chinese, Hawaiian, and Vietnamese.

Asians and Pacific Islanders will be asked, in the race question, to fill the circle "Asian or Pacific Islander" and to write-in their specific group. We will code the write-in entries for both 100-percent and sample data products. This approach allows us to meet Federal requirements for data on the total Asian and Pacific Islander population as well as data on the subgroups needed by the Asian and Pacific Islander community and selected state governments.

This differs from the approach used for collecting and tabulating data on Asians and Pacific Islanders in the 1980 census. In 1980, we had separate circles under the race item for the major subgroups (Chinese, Japanese, Filipino, Korean, Asian Indian, Vietnamese, Hawaiian, Guamanian, Samoan). The remaining Asian and Pacific Islander groups were coded during sample processing. As a result, we were not able to provide a total for the Asian and Pacific Islander population and the subgroups that were not listed separately in the race item for 100-percent tabulations. The data were available for sample data products.

The 1990 approach will allow the Census Bureau to identify more groups (the nine listed separately in 1980 plus other subgroups such as Cambodian, Laotian, Tongan and so forth).

Question: Does this change pertain just to Asian and Pacific subgroups or is the Bureau consolidating all ethnic groups?

Answer: The 1990 race question provides totals for the major race groups designated by the Office of Management and Budget: White, Black, Asian and Pacific Islander, American Indians and Alaskan native. The 1990 race question allows Asian and Pacific Islanders and American Indians and Alaskan natives to indicate their subgroup.

There is a separate question on Hispanic or Spanish origin. We collect other ethnicity data in the ancestry question on the same form.

Question: In view of the requirements in California, and I am sure in Hawaii, Washington and Oregon as well, can't we maintain the data on ethnic origins?

Answer: For the 1990 census, we will have data on the subgroups in all states in both 100-percent and sample data products. We will provide data which are more timely and complete than those available from the 1980 census.

ATTACHMENT

15-Jun-88

ESTIMATED COSTS TO SUPPORT 11 PROCESSING OFFICES
1990 DECENNIAL CENSUS
(Dollars in Thousands)

	FY 1984-1987 (SUNK COSTS)	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	TOTAL
MANAGEMENT/ADMIN.....	$34	$3,882	$36,685	$59,058	$48,497	$15,028	$163,184
SPACE.....	1,783	6,298	27,053	21,086	19,961	1,597	77,778
EQUIPMENT.....	15,722	12,073	22,383	11,319	...	...	61,497
MAINTENANCE/TECH. SUPPORT	...	3,499	19,167	23,551	11,051	1,060	58,328
OFFICE EQUIPMENT/SUPPLIES	1,690	2,654	5,567	2,400	2,400	600	15,311
TOTAL.....	$19,229	$28,406	$110,855	$117,414	$81,909	$18,285	$376,098

ECONOMIC AND STATISTICAL ANALYSIS

ECONOMIC BRIEFINGS

Question: The Department of Commerce conducts periodic press briefings on economic matters, such as the quarterly GNP, the monthly merchandise trade deficit, and other economic topics. We are told that these briefings are restricted to those holding White House and Congressional press passes.

There is interest in other groups being admitted to these briefings, for instance, the trade associations that publish newsletters. Is there some reason why their representatives can't be admitted to the press briefings?

Answer: Lack of space is the reason for limiting the number of reporters at the Department of Commerce. Only those with White House and Congressional press passes are admitted. This seems a reasonable place to draw the line; Congressional passes are the foundation for admittance to almost all agencies. In other words, reporters with Congressional passes are usually admitted freely to the State Department, Defense, etc.

The Department is aware that newsletters, many of them published by trade associations, also perform a service in distributing the news. The Department is responsive to representatives of these media when they bring their queries to the Department.

NATIONAL TECHNICAL INFORMATION SERVICE

Question: The 1989 budget submission contains no request for NTIS funding because "consistent with the Administration's privatization initiative, the private sector will be offered the opportunity to operate NTIS." Please describe the general rationale behind this decision.

Answer: The Administration would like to take certain measures to modernize and improve NTIS. It is exploring various marketing and production initiatives as well as contracting or joint venturing NTIS functions with private firms. In many cases, private sector firms are better equipped to handle these commercial activities more efficiently than NTIS. NTIS needs production initiatives to control costs.

On April 20, the Administration submitted a bill to the Congress which would increase the dissemination of NTIS products to the public by allowing for improvements in the efficiency of NTIS operations, i.e. controlling the production costs that have required price increases and caused declining sales. To accomplish this, the bill would permit NTIS to: (1) make flexible use of contracts, grants, or cooperative agreements with private-sector (or other government) "individuals, firms or organizations;"

(2) procure printing services without regard to Section 501 of Title 44 of the U.S. Code, which generally requires use of the Government Printing Office; and (3) use its receipts for the acquisition of capital equipment and inventories. NTIS will remain a part of the Department of Commerce.

Question: What funding was required to operate NTIS in FY 1988, and what funding will be needed to operate NTIS in FY 1989 in the event that no one in the private sector chooses to operate NTIS? Where will these funds come from, since this budget is not requesting any funds, contingency or otherwise, for NTIS?

Answer: The Clearinghouse functions of NTIS are totally self-supporting, funded from the sales of products and services. As the budget request indicates, NTIS receipts are expected to be $43,000,000 in FY 1988 and $49,000,000 in FY 1989.

Question: How many of the valuable activities NTIS now conducts that do not appear to be "profit-making" will continue under privatization?

Answer: The Administration proposal to modernize is not an accounting review of product profitability. The Administration does not intend to decrease the quality or level of service currently provided by NTIS. Rather, it will seek new and innovative ways to improve profitability and streamline operations.

Question: If the operation of NTIS is contracted out, what specific Federal agency will monitor the privatization initiative? What evaluations and reporting to the Congress is planned to insure that privatization of NTIS is in the best interests of the American public?

Answer: An NTIS management staff will remain after NTIS' commercial activities are contracted out or shifted into joint venture arrangements. That NTIS staff will manage the whole transition and report to a proposed new Under Secretary for Science and Technology. The Department will continue to keep the Congress informed through the normal authorization/appropriation process.

Question: Please describe the impact that privatizing NTIS will have on the Federal employees now at NTIS. Will these employees retain the Federal employment benefits and rights that they now have?

Answer: At our current stage of planning, we cannot be certain exactly how many current NTIS employees might be displaced. The Department will make every effort to place employees elsewhere in the Department or the Federal government. Those placed in Federal government positions will retain their Federal employment benefits and rights. The Department has an excellent record in assisting employees in finding other jobs.

Question: What assurances do you have that anyone in the private sector is now ready to come in and operate NTIS?

Answer: A number of companies have expressed interest in managing selected NTIS activities on a contract basis. Others have expressed interest into entering joint venture arrangements with NTIS.

Question: Was cost-benefit analysis of the privatization of NTIS conducted? If so, please provide the study results to the Subcommittee.

Answer: The purpose of the modernization of NTIS is to increase the usage and efficiency of NTIS products. The aim is to benefit the users of the NTIS technical information. Conventional cost-benefit analysis will be done only in efficiency issues such as printing. Higher usage of NTIS technical information will occur by having more private sector involvement in our marketing strategies.

Question: The budget request indicates that NTIS operating expenses have been funded through sale of its products and services. What will happen to these revenues if NTIS is privatized? Will the revenues be returned to the Government, retained by the contractor or shared with the Government?

Answer: NTIS operates on a break-even basis now. We would expect this to be the basis of future operations. However, any excessive profits made by NTIS would be returned to the Treasury.

Question: Does NTIS maintain documents that are sensitive or classified? If so, if NTIS were privatized, what security controls will be required to protect against the inappropriate release of sensitive and classified documents?

Answer: NTIS does not maintain classified documents. The NTIS collection consists only of unlimited, unclassified technical reports received from Federal agencies. It is the responsibility of the agency releasing the documents for input into the NTIS system to ensure proper classification prior to input. Security controls would continue to be the responsibility of the source agency.

Question: Please provide a listing of documents available from NTIS and the prices charged. Describe the method used to determine the selling price of a document. How often are prices adjusted to reflect inflation and other factors affecting the value of technical information?

Answer: Attached is a catalog of NTIS products and services, and a list of a representative sample of technical reports available from NTIS and their associated paper copy price. NTIS products are priced to recover the aggregrate cost of the NTIS operation. As part of our

annual financial planning process, all prices are reviewed and adjusted, as necessary, to maintain break-even status.

Clerk's note: The catalogue has been retained in the Subcommittee's files.

Sampling of NTIS Technical Reports

Title	Order Number	Price
Standard Industrial Classification Manual, 1987	PB87100012	$30.00
Medical Subject Headings Annotated Alphabetic List, 1988	PB87214235	$26.50
Medical Subject Headings Tree Structures, 1988	PB87214243	$21.50
Grateful Med (Diskette and User Guide)	PB86158482	$29.95
List of Serials Indexed for Online Users, 1987	PB87133237	$19.00
Basics of Searching Medline, A Guide for the Health Professional	PB85232650	$12.00
Directory of Federal and State Business Assistance 1986-1987, A Guide for New and Growing Companies	PB86100344	$29.00
Urban Hydrology for Small Watersheds 2nd Edition	PB87101580	$19.95
Guideline for Isolation Precautions in Hospitals	PB85923401	$7.00
NLM (National Library of Medicine) Online Services Reference Manual, 1986	PB86219672	$47.00
EPA (Environmental Protection Agency) Guide for Infectious Waste Management	PB86199130	$14.95
Technical Resource Document for the Storage and Treatment of Hazardous Waste in Tank Systems	PB87134391	$38.95
Directory of Federal Laboratory and Technology Resources - A Guide to Services, Facilities, and Expertise, 1986-1987	PB86100013	$36.00
Risk Assessment and Management Framework for Decision Making	PB85170157	$12.95
Guideline for Infection Control in Hospital Personnel	PB85923402	$7.00
Guideline on Electrical Power for ADP Installations	FIPSPUB94	$19.95
Initial Graphics Exchange Specification (IGES), Version 3.0	PB86199759	$44.95
Small Business Guide to Federal R&D Funding Opportunities	PB86100112	$12.50
Catalog of Government Patents 1986. Inventions Available for Licensing to U.S. Businesses	PB87125670	$33.00
Urban Hydrology for Small Watersheds 2nd Edition, Microcomputer Version 1.11, Executable Modules Only (Technical Release Number 55)	PB87101598	$90.00
Work Practices Guide for Manual Lifting	PB82178948	$19.95
Evaluating R and D and New Products Development Ventures: An overview of Assessment Methods	PB86110806	$12.00
Directory of Computer Software 1987	PB87143236	$48.00
Guidelines for the Prevention and Control of Nosocomial Infections	PB86133022	$38.25
Guideline for Handwashing and Hospital Environmental Control, 1985	PB85923404	$7.00
Medlars Indexing Instructions Tumor Key Supplement, 1987 (Technical Notes)	PB87105409	$8.50
Transition from Development to Production	ADA161063	$19.95
Alternate Concentration Limit Guidance. Part 1. Acl Policy and Information Requirements	PB87206165	$19.95
Federal Software Exchange Catalog 1987	PB87904001	$50.00

Sampling of NTIS Technical Reports

Title	Order Number	Price
Underground Tank Leak Detection Methods A State-Of-The-Art Review	PB86137155	$19.95
Federal Technology Catalog A Guide to New and Practical Technologies 1986	PB87125688	$27.00
Health and Safety Guide for Service Stations	PB267384	$14.95
Reports on AIDS (Acquired Immunodeficiency Syndrome) Published in the Morbidity and Mortality Weekly Report, June 1981 through May 1986	PB86211455	$8.75
Procurement Programs (P-1) Department of Defense Budget for Fiscal Years 1988 and 1989	PB87138947	$19.95
Prevention of Grain Elevator and Mill Explosions	PB83129064	$19.95
Specification for a Data Descriptive File for Information Interchange (DDF). Category: Software Standard, Subcategory: Information Interchange	FIPSPUB123	$14.50
Research Development Test and Evaluation (R,D,T and E) Programs (R-1), Department of Defense Budget for Fiscal Years 1988 and 1989	PB87138939	$14.95
Guideline on Functional Specifications for Database Management Systems, Category: Software, Subcategory: Data Management Applications	FIPSPUB123	$12.95
NLM (National Library of Medicine) Chemical and Toxicological Files PC Demo Disk (For Microcomputers)	PB87143327	$15.00
Guideline Codes for Named Populated Places, Primary County Divisions, and Other Locational Entities of the United States and Outlying Areas, Category: Data Standards and Guidelines. Subcategory: Representations and Codes	FIPSPUB55-2	$120.00
Guidelines for Prevention of Intravascular Infections	PB84923403	$5.00
Health Advisories for 16 Pesticides (Including Alachlor, Aldicarb, Carbofuran, Chlordane, DBCP, 1.2-Dichloropropane, 2.4-D, Endrin, Ethylene Dihromide, Heptachlor/Heptachlor Epoxide, Lindane, Methoychlor, Oxamyl, Pentachlorophenol, Toxaphene and 2,4,5-TP	PB87200176	$25.95
Technical Resource Document for Obtaining Variance from the Secondary Containment Requirement of Hazard Waste Tank Systems, Volume 1 Technology-Based Variance	PB87158655	$25.95
Health Advisories for 25 Organics (Including Acrylamide, Benzene, Carbon Tetrachloride, Chlorobenzene, Dichlorobenzene(s), 1.2-Dichloroethane, 1.1-Diehloroethylene, Cis-1.2-Dichloroethylene, Trans-1.2-Dichloroethylene, Dichloromethane, P-Dioxane, Dioxin, Epic	PB87235578	$32.95
Technical Resource Document for Obtaining Variances from the Secondary Containment Requirement of Hazardous Waste Tank Systems., Volume 2, Risk-Based Variance	PB87158663	$38.95
Environmental Assessment Technical Handbook	PB87175345	$32.95
Inspection of Fracture Critical Bridge Members, Supplement to the Bridge Inspector's Training Manual	PB87163440	$25.95

Sampling of NTIS Technical Reports

Title	Order Number	Price
Recommendations and Guidelines Concerning AIDS (Acquired Immunodeficiency Syndrome) Published in the Morbidity and Mortality Weekly Report, November 1982-May 1987	PB87903399	$14.95
Pesticide Data Submitters List - 10th Edition - 1985	PB87145405	$80.95
Safety Study - Performance of Lap Belts in 26 Frontal Crashes	PB86917006	$25.95
Methods for Chemical Analysis of Water and Wastes	PB84128677	$38.95
Peer Review Organizational Manual	PB87954099	$32.95
Measuring the Regional Economic Significance of Airports	ADA176320	$32.95
User-Friendly IBM PC (Personal Computer) Computer Programs for Solving Sampling and Statistical Problems	PB86203783	$14.95
Report to Congress-Municipal Waste Combustion Study	PB87206074	$19.95
Program Acquisition Costs by Weapon System, Department of Defense Budget for Fiscal Years 1988 and 1989	PB87138913	$19.95
Occupational Health Guidelines for Chemical Hazards	PB83154609	$104.95
Public Health Mycobacteriology A Guide for the Level III Laboratory	PB86216546	$19.00
Test Methods for Evaluating Solid Waste Physical/Chemical Methods (2nd Edition)	PB87120291	$50.95
Survey of Household Hazardous Wastes and Related Collection Programs	PB87108072	$19.95
National Engineering Handbook Section 4, Hydrology	PB86180494	$50.95
Project Manager's Guide to Application Systems Life Cycle Management	PB87101747	$19.95
Microwave Receivers and Related Components	PB84108711	$27.50
Prenatal and Perinatal Factors Associated with Brain Disorders	PB87172581	$38.95
Guideline on Air Quality Models (Revised)	PB86245248	$25.95

ECONOMIC DEVELOPMENT ADMINISTRATION

Question: Mr. Secretary, you announced in your "Export Now Campaign" and Congress has designated May 9-13 as Exporter Awareness Week. Since EDA and the Economic Development Districts and other EDA funded institutions have been involved in export development activities for 10 to 15 years, how have you involved them in this activity? If you haven't contacted them, why not?

Answer: EDA has been deeply involved since the initial development and design of this program. Staff members, including the Deputy Assistant Secretary for Economic Development, Deputy Assistant Secretary for Grant Programs, and Deputy Director for Grant Programs, as well as Technical Assistance and Research Division staff have met with Export Now staff working with the design and implementation of this vital campaign. Much of EDA's research and technical assistance information gathered over the past years was provided to the staff of Export Now for use in developing the program. In addition to providing information and advice, EDA has furnished funds to train firms interested in exporting.

With regard to the involvement of districts and other EDA-funded organizations, they are expected to continue to promote exporting, using Export Now information as appropriate. In fact, a number of districts not currently providing export assistance will receive training on setting up export programs, and the Export Now materials will be used in that training. Some of the specific Export Now initiatives are still under development, and it is likely that districts and other EDA-funded organizations will be involved in some of them as well.

Question: Mr. Secretary, we may have to call in the Federal Trade Commission to investigate the Department for false advertising. The President's Budget - Page 5-87 - says that "There is no evidence that EDA's programs create new jobs nationwide." That being the case, why does EDA put up signs at their projects proclaiming "Jobs for America?"

Answer: Mr. Chairman, the slogan on this sign is a carry-over from the past. We agree that the language is inappropriate and will immediately take steps to remove it. Thank you for calling it to our attention.

Question: The Agency has made major additions to the terms and conditions for Title IX Revolving Loan Fund Capitalization grants including restrictions on the amount of capital not currently loaned out ("excess retention policy".)

Answer: Based on operating experience and the results of program analyses, EDA has revised the terms and conditions for revolving loan fund grants in an effort to increase

the effectiveness of such projects. The policy on retained capital was developed in response to concerns by EDA officials and the finding of a recent Office of Inspector General audit that some EDA-financed revolving loan funds had large amounts of grant funds available to area businesses having trouble obtaining capital. If the dollars sit in "investment accounts" rather than being loaned to businesses, the objective of the grants is thwarted. To prevent such situations and keep needed capital in circulation, EDA has added the requirement to which you refer.

Question: We understand that at least 3 North Carolina Community Colleges that have qualified for EDA grants have been told they must sign liens giving EDA part ownership of their facilities to get the grants. In one instance, EDA apparently cleared a $75,000 equipment grant for Haywood Technical College, in Clyde, N.C., but is insisting on a lien against the College's new $3.5 million technical education center as a condition of the grant.

A grant is not a loan, so please explain why is EDA asking for these liens?

Answer: EDA has not "cleared" a $75,000 equipment grant for Haywood Technical college as stated in the question. EDA has been processing a grant for Haywood College, but no clearance or approval has been given.

As a part of the application process, EDA staff discussed with Haywood officials the necessity for a lien. The requirement for liens on real property improved with EDA grants is intended to protect the government's interest in such property for the useful life of the improvement(s). Over the past several years, EDA has found that some grantees are not abiding by the requirements set forth in the grant terms and conditions. This is particularly true of the restriction against using any real property acquired or improved in whole or in part with Federal funds for other than the authorized purpose of the original grant during the expected useful life of the project. This includes a requirement that such real property may not be used to secure a mortgage without EDA's consent.

To place the public "on notice" as to EDA's interest in the real property, including the requirements that the property remain in the public domain and be used for the purpose of the original grant for its useful life, the requirement that a lien be placed on EDA-funded facilities was instituted in July 1986.
The lien EDA requires is not a lien as normally understood by the term. It does not establish or necessitate repayment of a debt, unless (1) the property is sold or otherwise encumbered by the grantee in violation of the terms and conditions of the grant, or (2) used in a manner that does not comply with the conditions of the grant. As long as the grantee continues to abide by the terms and

conditions of the grant, there is no repayment requirement associated with this instrument.

Question: The Subcommittee staff has reviewed the Mt. Auburn study of RLF's and find it generally favorable toward this program. Now the Inspector General is making a fourth study of the program since 1980, and we want to know why this is necessary?

Answer: The Mt. Auburn study examined revolving loan funds (RLFs) that made loans from 1982 to 1984. The Office of Inspector General (OIG) will look at RLF grants made from the beginning of the program through 1986. In addition, the OIG will look behind the data provided by RLF grantees/borrowers, something that was not done (except in a few case study situations) by Mt. Auburn. The OIG study will also differ from previous studies in that it will examine EDA management of the program and, unlike the Mt. Auburn evaluation, will look at local management of RLFs.

Question: What does the agency spend on its EDA Newsbriefs clipping service and how are the items selected for inclusion? Who receives the publication?

Answer: EDA does not spend any money for a "clipping service" for preparation of the EDA Newsbriefs. All items are collected by employees of EDA who voluntarily send in items they notice and believe to be of interest to the agency. In some cases the items relate to EDA-funded projects; in others, they treat some economic development issue. The total cost of EDA Newsbriefs is approximately $2,200 per year. It is provided through normal agency distribution channels to EDA employees in the Headquarters, Regional and EDR offices.

INTERNATIONAL TRADE ADMINISTRATION

GENERAL TRADE

Question: Tariffs, embargoes, and the Generalized System of Preferences are but a few trade measures that have become tools of foreign policy. Commercial restraints have been enacted against the Cubans, Nicaraguans, South Africans, Chileans, Albanians, Poles, Russians, Chinese, for reasons wholly independent of their commercial conduct. Has our trade policy been sacrificed to our foreign policy?

Answer: While it is true that in a few instances the United States has used trade measures for not entirely commercial reasons, the vast majority of these measures have been wholly tied to the economic/business conduct of a particular country or countries. Most of our trade actions are the result of restrictive trade policies enforced by foreign countries. For example, dumping, countervailing duty and Section 301 actions are taken when foreign countries impose unfair trade practices on U.S. products. Section 201 actions provide relief from injurious increased import competition. In all of these measures, the United States makes sure that foreign actions are injuring U.S. industry before the U.S. action is taken.

Certain countries, primarily communist, are denied the lower duty rates shown in column 1 of the U.S. tariff schedule. Instead, these countries must pay the higher statutory tariff rates which are assessed against imports from countries that do not receive most-favored-nation (MFN) treatment. Economic considerations would come into play when the Administration would consider any of them for MFN treatment, as in the case of Romania. In addition, these countries generally do not receive Generalized System of Preferences (GSP) benefits.

Question: What are you as Secretary of Commerce doing to strengthen the role of the Commerce Department with the Administration?

Answer: With all U.S. trade actions, the United States takes a serious look at the economic impact of the actions and assesses their effect on competitiveness before they are taken. The Department of Commerce reviews those actions along with other Federal agencies such as the Departments of State and Defense and has a strong voice in the overall policy that results. The Department also supports the Administration's policies with regard to national security and human rights. We do not believe that any member of the Administration should recommend policies or trade measures wholly on the basis of economic return without considering these other issues.

The success of the Commerce Department's programs, which have helped to increase exports, reduce the trade deficit, and reduce barriers to U.S. exports, have strengthened its role in the Administration.

Question: You recently told the American Bar Association that U.S.-Soviet trade relations have improved since the Joint Commercial Commission meeting held in Moscow in April and that Soviet economic reform programs are succeeding. How do you measure Soviet success?

U.S. intelligence agencies released a report a day before your announcement that said that the Kremlin's efforts to create a more dynamic economy have failed. Can you comment?

Answer: In my talk to the American Bar Association, I reported on the success of the U.S. delegation to our trade talks in Moscow in achieving our two objectives: emphasizing to the Soviets that resolution of fundamental issues of the trade relationship depends on progress in other areas of the U.S.-Soviet relationship, especially emigration; and agreeing on some concrete steps to help American companies gain better access to the Soviet market.

I also told the ABA about the economic difficulties which face the Soviets and discussed the magnitude of what Gorbachev is trying to do. Soviet leaders have concluded that the Soviet economy is in a "precrisis" situation and that the U.S.S.R. will continue to fall further and further behind Western countries unless the situation is remedied through "radical reform."

One of the possible measures of success of Soviet economic reforms will be the extent to which their manufactured products can compete on world markets. At present, few Soviet manufactured goods can compare with Western products in terms of sophistication, quality, or service. Another measure of success will be improvement in delivery of products and services to Soviet consumers, which today compares very unfavorably with the West according to Soviet and Western reports.

The Soviets say they are embarking on a program of "radical reform" which will take a long time to complete. Thus, it is far too early to assess their success or failure in reforming the economy. The CIA/DIA paper on Gorbachev's economic program reports that economic shortfalls in 1987, particularly shortfalls in machinery production, will limit the pace of industry modernization. This, along with several other factors, leads these agencies to conclude that the short-term outlook for Gorbachev's program is not good. Even in the trade area, Western companies report that in the short term the changes are slowing down deals as Soviet and Western business representatives adjust.

Question: Should the U.S. sell goods to the Soviets on favorable credit terms underwritten by the Ex-Im Bank?

Answer: The Soviet Union does not have access to Export-Import Bank credits. Such access, along with access to all official U.S. credit programs, extension of most-favored-nation tariff treatment and conclusion of a trade agreement, are linked to Soviet emigration under the Jackson-Vanik Amendment to the Trade Act of 1974. The Administration will not extend these trade conditions in the absence of sustained and substantial emigration from the Soviet Union.

Question: For some, the incentive to avoid duties is considerable and is reinforced to the extent that attempts to do so often go undetected. A significant and complicating factor in this respect is the increasingly large number of importers who are "related" to the foreign producers and exports of dumped and subsidized merchandise. The corporate ties make the opportunity for subterfuge greater and the chances of discovery smaller.

Do you believe the Commerce Department and the Customs Service are sufficiently organized and mobilized to combat this evasion?

Answer: Our response to the question below on antidumping and countervailing duty orders on brass sheet and strip outlines steps the Department is taking in conjunction with the Customs Service to monitor the enforcement and collection of antidumping (AD) and countervailing duties (CVD) and to prevent foreign exporters from evading AD and CVD orders.

The complications believed to be associated with importation through related parties typically do not arise in our antidumping investigations. This is because in situations where a foreign producer sells through a related party in the United States, we use the price charged to the first unrelated customer as our starting point in dumping calculations. Consequently, "transfer" prices or other payments between the related parties would not distort or normally even be relevant to our findings.

Question: The House has passed The Textile and Apparel Trade Act. This year's bill addresses the criticisms the Administration had with respect to previous textile legislation.

*This bill is not discriminatory. It treats all countries equally.

*This bill will not rollback trade.

*This bill is consistent with the principles of GATT.

Even though we have met the objections of the Administration, can we still expect a veto? Why?

Answer: Although it is true that the new bill eliminates the inherent bias against Far Eastern suppliers exhibited by the earlier bill, the new bill still constitutes a rollback in trade, is inconsistent with the General Agreement on Tariffs and Trade (GATT) and the Multifiber Arrangement, and conflicts with many of our bilateral textile agreements.

The bill establishes global quotas for 1987 at the 1986 level of trade plus one percent. One percent growth per year is allowed thereafter. These levels effectively constitute a rollback in trade, compared to actual trade in 1987 and the terms of many of our agreements. Imports of textiles and apparel increased by 2.3 percent between 1986 and 1987, on a volume basis. Thus, actual 1987 trade on average exceeded the level permitted under the bill. To the extent the bill requires "overshipments" to be charged to the succeeding year, trade in 1988 would be rolled back significantly.

The new bill would violate the GATT. Article XIX of the GATT requires a separate determination of serious injury for each product. The bill assumes a single textile/apparel industry although hundreds of individual products are affected. Further, the GATT permits relief only "for such time as may be necessary to prevent or remedy injury" while the relief imposed under the bill appears to be permanent. No review of the relief is scheduled for ten years and then an additional act of Congress would be necessary to terminate the global quota system. In addition, the compensation authority provided is inadequate and will not prevent our trading partners from retaliating against U.S. exports.

The bill would violate the MFA by setting global and unilateral, rather than bilateral and negotiated, quotas. The MFA allows a unilateral restraint only if a particular product from a particular country is causing market disruption. The bill clearly does not meet this standard. In addition, the bill could force the United States to abrogate many of its bilateral textile agreements.

Question: Mr. Secretary, as you know, I attached an amendment to the Senate version of H.R. 3 which would have corrected the Department's calculation of dumping margins in related party cases. Current U.S. practice trading partners, the statute or the GATT Anti-Dumping Code. The Department opposed my amendment I believe, mainly because supporting a change would have been an admission that current practice was wrong. Will you conduct an assessment of Commerce's interpretation of the statute and the Code and report back to this of dumping margins in related party cases as opposed to non-related party cases, and EC, Canadian and Australian practice.

The Department also argued that the U.S. should not change its calculation, our partners should change theirs. Has there been any progress on this front?

Answer: The amendment, which would have changed the way in which the Commerce Department calculates dumping margins in cases involving related party importers, was considered carefully by the bill. After thoroughly studying the proposed changes and discussing the impact of such changes with both supporters and opponents, we were persuaded that the amendment would distort dumping calculations and render the law inherently unfair. I assure you that our opposition was not motivated by any fear of admitting that current practice was "wrong."

Existing practice is not inconsistent with the statute, as has been recognized by the courts (see, Smith-Corona Group v. United States 713 F.2d1568 (Fed. Cir. 1983) and The Timken Company v. United States 673 F. Supp. 495 (Ct. Int'l. Trade 1987)). Moreover, our practice is fully compatible with the price adjustment recommendations set forth in the Anti-Dumping Code.

In the course of the debate on H.R. 3, we gave in-depth explanations of our reasoning on this issue. We also acknowledged that our trading partners' practices differ from ours in this and a number of other respects. Finally, based on our experience, we have seen no evidence that foreign manufacturers who sell through related parties in the United States receive an unfair advantage as a result of our methodology. Given this, I am not persuaded that further analysis can shed any meaningful new light on this issue.

We have raised this with our trading partners and expressed our view that their calculation methodologies can lead to unfair results. However, we have not tabled this issue as a major negotiating objective for the Uruguay Round. To date, we have focused our attention on issues which we view as being of broader concern to U.S. industry, such as repeat dumping and diversionary practices designed to circumvent or evade antidumping orders.

Question: It has been brought to the Subcommittee's attention that in the case of antidumping and countervailing duty orders on brass sheet and strip from several countries, including Brazil, and on low fuming brazing copper rod and wine, the domestic industry is concerned that the orders are not being enforced. Is there a systematic way of ensuring that once orders are transmitted to Customs that they are enforced?

Answer: The Department appreciates domestic producers' concerns that not all antidumping and countervailing duties are being collected. In part as a result of these concerns, Import Administration and the Customs Service have conducted an extensive review of the situation over the past several months. We believe the cause of this concern is inadequate information on duties collected.

In the low fuming brazing copper wire and rod cases, a cross-referencing of entries with Bureau of the Census reports shows that Customs officials had collected the correct amount of duty deposits on all entries subject to the order. In regard to the brass sheet and strip cases, we are working to correct the systemic problems of information collection to determine a definitive answer. Although not directly germane to your question, imports of brass sheet and strip have decreased by 40% since 1984.

We have been working with the Customs Service for several months to correct deficiencies in the duty collection reporting system. Customs is currently re-examining data for calendar year 1987, and we expect Customs to provide us reliable figures on antidumping and countervailing duty collections for that year by early fall. Both Customs and the Department will at that time turn our attention to the entries made in 1988.

In addition, the Department is supporting the Customs Service's effort to automate the current manual system of data retrieval. Under the present system, Customs field officers hand-mark each invoice in blue ink and then forward the document to Customs Headquarters. The documents are then keypunched and input into the computer system. The new system will allow Customs Headquarters and the Department to determine if the Customs field officers are operating under the correct instructions and permit the immediate retrieval of information on suspended entries and estimated duty collections.

The combination of this new system with an improved system for reporting liquidations, will significantly increase the capacity of both agencies to determine if required antidumping and countervailing duties are being collected. If problems arise that indicate a lack of collection, the Department will move aggressively to ensure full compliance with the law.

Question: ITA has several units in Washington, domestic field offices and many overseas posts, how many internal control reviews have you conducted of these organizations? During what time period? Provide specifics on the major findings from these reviews and a brief description of the corrective actions taken. If no such reviews have been performed, what assurance does ITA have that activities carried out by these unit are consistent with Commerce/ITA objectives and that funds are being spent appropriately?

Answer: The US&FCS conducts one Internal Control Review (ICR) each year. Starting with 1984, when the program began, the reviews were:

FY 1984 - The US&FCS User Fee Program--This review concluded that the system was working and that there was assurance that government funds were being properly safeguarded. The major finding and corrective action was:

- Procedures should be amended to require collections to be stored in a combination safe or locked cabinet. Action: The revised user fee procedures issued in 1985 specified that collections be kept in a combination lock/cabinet safe. Subsequent reviews demonstrate compliance.

FY 1985 - Direct Communications between District Offices and Overseas Posts--The Internal Control Review found that the system was functioning well but that improvements could be made:

- US&FCS should get standard cable formatting procedures from the Veterans Administration, which operates the domestic communications network, and train District Office personnel where needed; and update/establish administrative procedures. Action: The recommendations were carried out.

FY 1986 - Publications Activity--Almost all of the District Offices and overseas posts produce publications, principally commercial newsletters and promotion pieces for trade events. The major problems found were:

- ITA lacks clear authority for overseas publication activity. Action: The Omnibus Trade Bill contains language authorizing overseas publications activity.

- There were no written publications procedures at overseas posts and little awareness of existing domestic procedures at the District Offices. Action: The Department has updated and issued domestic publications procedures. However, further instructions to overseas posts have been deferred due to a lack of funds to publish a revision of the Operations Manual.

FY 1987 - The Post Commercial Action Plan (PCAP) and the Country Marketing Plan (CMP)--The Internal Control Review found that the PCAP and CMP processes worked and met US&FCS needs. The major recommendations were:

- The monitoring of workload tasking to posts should be reviewed. Action: Basic agreement has not yet been reached on how to monitor workload tasking to posts.

- A uniform definition of "counseling session" should be issued to the D.O.'s and overseas posts. Action: A uniform definition of "counseling session" has been adopted and sent to field offices.

FY 1988 - Personal Services Contracting Practices at US&FCS Overseas Posts--This ICR was begun in April and is expected to be completed by August.

Question: How much have U.S. exports improved over the last 4 quarters?

Answer: Between 1st quarter 1987 and 1st quarter 1988 U.S. exports have risen in value by 29.3 percent from $57.9 billion to $74.9 billion.

Over two-thirds of that export growth was in manufactured goods. Exports of manufactures rose between the 1st quarters of 1987 and 1988 by 29.6 percent, from $39.2 billion to $50.8 billion.

Question: Is that increase on the basis of dollars or volume?

Answer: That is the increase in exports in value terms. Estimates of export price changes for the 1st quarter of 1988 are not yet available. However, a comparison of total U.S. exports in the 4th quarters of 1986 and 1987 show that about 90 percent of the rise in export value was due to increased export volume.

Question: Would you say that American exporters are taking this opportunity to increase their profits, instead of reducing their prices to increase volume and consequently domestic production and jobs?

Answer: While the composition is not exactly the same, comparison of available data on export prices and producers' prices for manufactured goods suggests that U.S. exporters of manufactured goods have resisted short run gains and have held back on price increases and sought growth in the volume of their export sales and increased market share. Between the 4th quarters of 1986 and 1987, U.S. manufactured goods producers prices rose by 4 percent, while U.S. manufactures export prices were held back to a far slower rate--rising by only 0.7 percent.

COMPETITIVENESS OF AMERICAN INDUSTRY

Question: Last year's catch word was "competitiveness." In the Trade Bill and otherwise we took steps to make American industry competitive again. However, in the textile industry we have modernized to be the most productive in the world and I no longer hear those dreary stories about the over-capacity in steel. In fact, we hear that many U.S. industries can't take care of all foreign orders. (chemicals, steel and paper)

Can we really expect to significantly reduce our trade gap until we increase our manufacturing base; and more importantly, will American firms invest in their base instead of using all this money buying each other out?

Answer: Because we have to import capital to finance our trade and budget deficits, we are looking at a total merchandise trade adjustment--mainly in manufactures--of about $200 billion (4-5% of GNP) just to bring our trade

account into balance. Agriculture, tourism and services can help. Exports in these areas were up 20 percent last year. But these areas can't correct a $200 billion problem.

The sheer size of the challenge dictates that the fundamental burden of solving our trade problem will have to rest with manufacturing.

Manufactured goods accounted for most of the decline in our trade balance during the 1980's, and they have contributed most to our recent improvement. In fact, about 85% of our recent export gain was from manufactures. Three quarters of U.S. merchandise trade and two-thirds of total world trade is manufactured products.

This is why only more manufactured exports will finish the job of turning our trade deficit around. And this is, in fact, what is happening. Manufactured exports are performing well. In March manufactured exports surged 23 percent over the February level and accounted for almost 70 percent of that month's historic export increase.

To answer your second question, I share your view that well-positioned American firms invest in manufacturing and invest in meeting that new foreign demand. It's our job at the Commerce Department to encourage just that.

President Reagan and I launched our EXPORT NOW! program in February precisely for this purpose. Our objective is to increase the number of U.S. companies--especially small and medium-sized businesses--that engage in exporting and that adopt a world market mentality.

We are trying to convince the companies, which have yet to expand exports--in terms of exchange rates, and in terms of the quality of U.S. products--has never been better for the export of U.S. goods and services.

Our export-led expansion is proceeding hand-in-hand with a resurgence in our manufacturing base. Manufacturing productivity, output and jobs are up. Manufacturers expect sales and shipments to increase capital spending by almost ten percent this year. They know we are now in a global marketplace, and have learned the lesson of our complacency in the 1970's. I believe that once other U.S. companies understand this, they will make the same essential investment in their future.

Question: The Japanese are building automobile plants all over the United States and they are now, in conjunction with Phillips, going to resume making cathode tubes for television in Ohio. RCA and finally Zenith gave that up but our foreign competitors obviously see an advantage in producing them here.

If its a good deal for the Japanese to produce in America, what is American industry doing to take care of the

opportunity; the last I read, Lee Iacocca wanted to send the K cars to Mexico?

Answer: While the U.S. Government is not privy to the specific rationale for individual investment decisions, we understand that U.S. companies take into account numerous factors when making such decisions. These factors include judgments regarding economic, political and social conditions here and abroad.

The record indicates that U.S. companies are investing in the United States. For example, General Motors has initiated its Saturn project in Tennessee. Ford is building new engine plants. In fact, expenditures for new plants and equipment in the United States by motor vehicle companies for 1987 totaled $12.02 billion.

Zenith, RCA (now part of French Thomson) and Philips (Magnavox, Sylvania, Philco brands, now wholly owned by Philips of the Netherlands) continue to produce tubes in their own plants in the United States.

Matsushita/Philips, Toshiba Westinghouse, and Sony also have tube production facilities either planned or in operation. The Japanese have become more competitive in this industry, regardless of plant site, because of their success in the television market itself. This has allowed them to recycle more resources back into picture tube technology and manufacturing.

International direct investment plays a vital and expanding role in the world economy. To ensure its maximum contribution to both global and domestic economic well-being, the United States believes that international direct investment flows should be determined by private market forces. The United States opposes continued and increasing governmental intervention that impedes or distorts investment flows or attempts to shift artificially the benefits of those flows. Such measurees include trade-related or other performance requirements, fiscal or financial incentives, and discriminatory treatment of foreign investment.

Question: Over the last two or three years the Trade Development unit has been conducting a series of so called "competitive assessments," exactly how many have been completed?

Answer: Forty-five industry-specific assessments have been published to date under the Competitive Assessment Program. (See list below.) Two more assessments (Cellular Radio Equipment and Electric Motors) have been approved for publication and are awaiting printing. Draft assessments covering three more industries (International Construction-Update, Fiber Optics-Update, and Paper Industries Machinery) are currently under review.

Question: What sectors do Competitive Assessments cover?

Answer: See list below for sectors that Competitive Assessment cover.

DEPARTMENT OF COMMERCE COMPETITIVE ASSESSMENTS

INDUSTRY	PUB. DATE	PRICE	NTIS/GPO ORDER NUMBER
Petrochemical	8-82	$22.95	NTIS PB 83-176271
Civil Aircraft	3-84	$16.95	NTIS PB 84-154913
Advanced Ceramics	3-84	$16.95	NTIS PB 84-162288
Information Serv.	5-84	$11.95	NTIS PB 84-174804
Manufacturing Auto.	6-84	$ 4.50	GPO: 003-009-00432-2
Biotechnology	7-84	$ 7.00	GPO: 003-009-00430-6
Intnl. Construction	7-84	$ 4.50	GPO: 003-009-00431-4
Solid Wood Products	8-84	$ 5.00	GPO: 003-009-00368-7
Fiber Optics	9-84	$ 3.00	GPO: 003-009-00433-1
Data Proc. Serv.	12-84	$ 3.00	GPO: 003-009-00437-3
Automobile, 1983	12-84	$ 4.50	GPO: 003-000-00637-9
Pharmaceutical	12-84	$ 4.75	GPO: 003-009-00442-0
Renew. Energy Equip.	12-84	$ 3.25	GPO: 003-009-00440-3
Software	12-84	$ 4.50	GPO: 003-009-00436-5
Ball & Roller Bear.	2-85	$ 3.25	GPO: 003-009-00453-5
Oil & Field Equip.	2-85	$ 3.00	GPO: 003-009-00443-8
Construction Equip.	2-85	$ 4.25	GPO: 003-009-00446-2
Equipment Leasing	3-85	$ 4.75	GPO: 003-009-00449-7
Farm Machinery	3-85	$ 3.75	GPO: 003-009-00454-3
Wood & Upholst. Furn.	3-85	$ 2.25	GPO: 003-009-00448-9
Semicon. Mfg. Equip.	3-85	$ 4.25	GPO: 003-009-00455-1
Automotive Parts	5-85	$ 5.00	GPO: 003-009-00447-1
Methanol	5-85	$ 2.50	GPO: 003-009-00457-8
Herbicide	6-85	$ 4.00	GPO: 003-009-00462-4
Disk Storage	6-85	$ 2.50	GPO: 003-009-00461-6
Flexible Mfg. Sys.	7-85	$ 4.75	GPO: 003-009-00464-1
Reinf. Compos. Fiber	9-85	$ 2.50	GPO: 003-009-00469-1
Elec. Pwr. Gen. Equip	10-85	$ 3.25	GPO: 003-009-00467-5
Water Res. Equip.	10-85	$ 4.75	GPO: 003-009-00468-3
Automobile, 1984	12-85	$ 4.50	GPO: 003-000-00637-9
Transformer	2-86	$ 2.50	GPO: 003-009-00472-1
General Aviation	6-86	$ 4.25	GPO: 003-009-00484-5
Microcomputer Systems	8-86	$ 6.50	GPO: 003-009-00485-3
Cent. Off. Dig. Switch	9-86	$ 6.00	GPO: 003-009-00486-1
Mining Machinery	10-86	$ 4.25	GPO: 003-009-00491-8
Nitrogen Fertilizer	10-86	$ 5.00	GPO: 003-009-00493-4
Ethylene	12-86	$ 4.50	GPO: 003-009-00497-7
Textile Machinery	1-87	$ 4.00	GPO: 003-009-00495-1
CAD/CAM Equipment	2-87	$ 3.50	GPO: 003-009-00498-5
Robotics	3-87	$ 4.75	GPO: 003-009-00499-3
Cement	7-87	$12.00	GPO: 003-009-00513-2
Automobile	8-87	$ 2.50	GPO: 003-009-00514-1
Materials Handling	12-87	$ 4.00	GPO: 003-009-00524-8
Sports Equipment	3-88	$ 5.00	GPO: 003-009-00520-5
Civil Helicopter	4-88	$19.95	NTIS PB88-186325

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National Technical Information Service
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DEPARTMENT OF COMMERCE COMPETITIVE ASSESSMENT PROGRAM

Background

The Competitive Assessment Program, Secretarial initiative undertaken in 1982, is a research and analysis activity which assesses the medium-to long-term competitiveness of specific sectors of the U.S. industry. The Program is under the management of the Assistant Secretary for Trade Development within the U.S. Department of Commerce's International Trade Administration.

Objective

These studies seek to improve our understanding of the competitiveness issues and problems facing particular industries. More specifically, they seek to:

-- determine the reasons and underlying causes that contribute to present competitive advantage or disadvantage in particular industries;

-- identify the long-term trends and factors likely to affect future competitiveness; and

-- develop policy options, to be considered by DOC and other Federal officials, that offer promise of enhancing the present and future competitiveness of U.S. firms in international markets.

The assessments are also intended to increase the knowledge and awareness of DOC and other Federal policy officials concerning the trends and forces affecting U.S. industrial competitiveness and provide a longer term context within which immediate policy decisions can be made.

Question: Provide specifics on how these assessments were used.

Answer: Competitive Assessments seek to determine the reasons and underlying causes that contribute to present competitive advantage or disadvantage and factors likely

to affect the future international competitiveness of specific U.S. industries. They also seek to identify policy options available to the Federal Government that offer promise of enhancing the present and future competitiveness of U.S. firms in these industries in international markets.

Published assessments, in nearly every case, have received positive industry response and have proved effective in increasing U.S. Government/industry communication and interaction. Comments in the trade press about the program have been universally favorable and trade associations have helped to ensure wide distribution of assessments within industry. It is fair to say that the program has made substantial progress in improving our understanding of the competitiveness problems of specific industries and is helping to facilitate a consensus regarding appropriate responses to these problems and to the opportunities that exist. In some cases, e.g., the international construction and CAD/CAM industries, Government/industry conferences have been held to discuss such problems and opportunities as a follow-up to published assessments.

On the Government side, Competitive Assessments have also proved useful in a variety of ways. Assessments have been used, for example, in response to White House and Congressional information requests, ITC case deliberations, Congressional debates, bilateral trade negotiations, preparation for trade missions and shows, Ex-Im Bank policy deliberations, Ex-Im Bank/OPIC financing discussions, USTR Task Force discussions regarding GATT negotiations (including the Uruguay Round), and Justice Department antitrust examinations.

Question: How much do Competitive Assessments cost?

Answer: Approximately $2 Million has been budgeted for the Competitive Assessment Program annually.

Annual Costs

$1,800,000	Personnel Compensation for 40 FTE Staff (in Trade Development)
25,000	Travel
20,000	On-Line Data Access
25,000	Printing
40,000	Seminars and Other Follow-up Activity
$1,910,000	Total

Question: Were they done by ITA staff or were they contracted out?

Answer: Competitive Assessments are prepared by ITA staff. They are multifaceted projects produced under the editorial and policy guidance of a team of senior policy analysts from the Trade Information and Analysis (TIA) unit. Initial research and analysis is produced by specific industry analysts from the various Trade Development sectors (e.g. Aerospace, Capital Goods, Science and Electronics, Automotive Affairs and Consumer Goods, Basic Industries, Services, etc.) with technical assistance, and quality control as well as general guidance being provided by the ITA senior policy team.

Question: You are requesting additional workyears for Trade Information and Analysis. Please provide a list of priority tasks for this group. How will these tasks further ITA objectives (please be specific)?

Answer: The increase in positions from the FY 1988 available resources to the 1989 Base is the annualization of the 1988 increase to support Commerce objectives in the General Agreement on Tariffs and Trade (GATT) negotiations. The increase will enable ITA to carry out the Commerce Department's responsibilities in the Uruguay Round of these multilateral trade negotiations and provide the USTR with the analytical support necessary to conduct successful negotiations.

OFFICE OF TEXTILES AND APPARELS

Question: Please supply for the record a summary of the funding for the Office of Textiles and Apparels.

Answer: Total funding for Textiles and Apparel in FY 1988 is $6,791,000. A breakdown of expected expenditures in FY 1988 is as follows:

Office Administration.....	$2,446,000
TIMS.....	585,000
Export Expansion Program.....	400,000
TC2.....	3,360,000
Total.....	$6,791,000

Question: Funding for OTEXA'S Export Expansion program has decreased from $957,000 in 1987 to $310,000 in 1988 and $231,000 in 1989. How was the reduction impacted on OTEXA'S ability to promote exports of America's textile products in terms of trade shows and other assistance to textile and apparel manufacturers?

Answer: OTEXA has managed to obtain significant cost savings by rationalizing some of its office operations, especially printing. These savings will be applied to the textile and Apparel Export Expansion Program. We now expect to be able to allocate about $400,000 to the Program out of our FY 1988 appropriations. In addition, we expect to receive about $440,000 in industry contributions this year (and next) to help fund the Program. These items, together with certain cost

reduction measures being applied, should help us maintain a range of export assistance activities for the textile and apparel industries through FY 1989.

Question: Last September, OTEXA has only 42 of its 47 positions filled. How many of the 47 positions are now filled by full-time employees?

Answer: OTEXA's positions are currently filled by 45 full-time employees and 2 part-time employees who are in the process of being converted to full-time.

Question: Are sufficient funds requested for 1989 to maintain the 47 positions?

Answer: Sufficient funds are included in ITA's budget request to maintain this staff level in FY 1989.

Question: On April 27, 1988 the Journal of Commerce had a good article about the national high-technology center at Raleigh, N.C. operated by the Tailored Clothing Technology Corporation, or TC2. Since 1981 we have provided $15,100,000 for the Tailored Clothing Technology Corporation (TC2). Industry has matched those grants to provide a total of $30,000,000. The Department has once again not budgeted further support for TC2.

Has the Department found TC2 to be doing good work in assisting the apparel industry in automating the processes?

Answer: At the expense of taxpayers across the country, TC2 has made progress in automating the production process for certain types of apparel.

Question: What information does the Department have to the ability of TC2 to meet the needs of industry without Federal support?

Answer: The Government has provided financial support for TC2 for the past eight years. The Administration has never supported this program since the private sector should finance its own modernization without government subsidies.

Question: While I would have thought that China, with a billion people to keep busy, would have been the last place to seek automation, there was a recent report that the Chinese were going to invest $440,000,000 by 1990 to build and renovate 553 garment factories. Textile exports are China's most important source of hard currency and the PRC wants to join the developed countries by importing high technology for textiles production.
Mr. Secretary, in view of that, should our government be pulling back from the research we need to stay competitive in textiles and apparels?

Answer: China, unlike America, is a communist country which believes in government intervention in the marketplace. The Administration believes that the private sector should invest its profits into modernization without government subsidies. Therefore, the Administration feels that further funding for the project should be drawn from the private sector.

Question: Mr. Secretary, I believe we had 59 requests for consultations or calls in 1987 or about five a month. We have been getting the monthly reports we requested and I note that we had only 1, on Jamaica, in February and also just 1, on Hong Kong, in March.

What accounts for the drop off in the calls?

Answer: Under the Multifiber Arrangement (MFA) the United States may issue a call for consultations whenever imports of a particular product from a particular exporting country causes disruption to our domestic market. Several factors have combined to result in fewer instances of market disruption and subsequently fewer calls.

The rate of growth in imports has fallen dramatically. In 1987, growth in imports of cotton, wool, and man-made fiber textile and apparel products was held to 2.3 percent over the preceding year. This trend has continued into 1988, with first quarter imports falling by six percent as compared to first quarter 1987 levels.

As a result of the number of calls made over the las four years and the renegotiation of comprehensive agreements with major suppliers, more import controls are in place today than ever before. Over eighty percent of imports are subject to quantitative restraints of one kind or another.

The record performance of the domestic industry in both 1986 and 1987 has made it increasingly difficult for the U.S. Government to justify findings of market disruption as required under the MFA. Virtually all indicators of industry health have been on the rise, including: shipments; profits; employment; production; exports; productivity; capacity utilization; and investment.

U.S. FOREIGN AND COMMERCIAL SERVICE

Question: How many vacancies are there in the Foreign and Commercial Service?

Answer: The U.S. and Foreign Commercial Service has filled nearly all overseas positions that the budget allows. However, as an administrative matter, we have access to more FTE in 1988 than funds will support. Currently, there are approximately 24 FTE (out of an authorized base of 679) that will likely go unused through the end of this fiscal year.

Question: As of February 29th there were 2 FCS vacancies in China and 1 each in Japan and Korea--countries ITA terms "markets of highest potential." Are those positions still vacant, and if so, why aren't we filling them instead of keeping staff at posts with lesser potential?

Answer: All budgeted positions in China, Japan, and Korea have been filled. Consistent with the President's Budget for 1989, we are moving ahead to fill vacancies with language qualified officers from our recent recruitment process.

Question: According to a chart from ITA dated March 23, 1988, there were 28 unestablished FCS officer positions. When the fields are ripe for the harvest, why are we holding back on assigning these positions?

Answer: The pool of 28 unestablished Foreign Commercial Service Officer positions was not allocated to the field due to a lack of funding in FY 1988. We do have the FTE but not the funds to support these positions. The President's budget for 1989 contains funds to support these positions.

Question: I take it they are unestablished due to a lack of funding in 1988, for which you request an increase of $8,204,000 in 1989. Where would you put those 28 additional officers if we can supply the funds?

Answer: Twenty-one of these positions would be assigned to the following locations:

Ankara, Turkey; Baghdad, Iraq; Bangkok, Thailand; Beijing, China; Bogota, Colombia; Brussels, Belgium; Chengdu, China; London, UK; Madras, India; Manila, Philippines; Montreal, Canada; Moscow, USSR; New Delhi, India; Paris, France; Riyadh, Saudi Arabia; Santiago, Chile; Sao Paulo, Brazil; Seoul, Korea; The Hague, Netherlands; Tokyo, Japan; and Vancouver, Canada.

The other seven positions will be established as regional "floaters" to cover temporary vacancies as they arrive overseas, primarily in countries where we have only one officer stationed.

Question: What adjustments have been made to US&FCS activities in light of tne tremendous growth in state export development programs. What steps have been taken to assure that US&FCS activities do not duplicate those available at the state level?

Answer: Adjustments to US&FCS activities have come primarily through refining our Federal-State partnership program. There are five components of the partnership program:

- Memoranda of Understanding (MOU's) between District Offices and the States they serve (sample attached);
- a pilot program with the National Association of State Development Agencies;
- trade and local government association outreach;
- state-sponsored financial assistance for small business exporters; and
- cooperative efforts with local governments.

MOU's like the one attached exist between each district office and its counterpart agency in state government. They define both parties' roles in serving the small business exporting community. Improved MOU's have been negotiated for FY 1988. Major menu items included in the MOU's are:

- state representation on District Export Councils;
- participating in World Trade Week activities;
- publishing joint newsletters;
- exchanging trade leads;
- co-sponsoring events;
- providing overseas support to state delegations;
- planning joint field visits; and
- providing advance schedules of trade promotion events, among others.

In 1986 US&FCS entered into a pilot program with seven state members of the National Association of State Development Agencies (NASDA) to ensure that district offices and the respective states work together in effective and productive ways. This program requires quarterly coordinating meetings. Progress reports are sent to all other states to help them improve their Federal-State agreements and to eliminate duplication where it may exist. The first round of the pilot program ended in October 1987. Seven states participated in that first round: Alabama, California, Connecticut, Maryland, Minnesota, New York, and North Carolina.

US&FCS hopes to have the second round of the pilot program under way later this year. The second round will include the original seven states plus Delaware, Louisiana, and Wyoming. According to NASDA, Georgia, Illinois, Michigan, Texas, Maine, and Nevada are also interested in participating in the second round.

US&FCS headquarters has undertaken a major initiative involving an effort to reach out to governmental, and some private, associations. The goal is to publicize the district offices and US&FCS activities. For example, both the Secretary and the Director General of US&FCS have made presentations to the National Governors Association which address our efforts to work with state governments.

US&FCS has also made presentations to the National Conference of State Legislators, the National Conference

of Lieutenant Governors, and the National League of Cities.

One result is the progress on a framework agreement with the National League of Cities. That agreement will define how our offices at the local level will interact with cities trying to establish international trade offices.

The US&FCS also assist states in developing state-sponsored export financing assistance programs for small business: the US&FCS cannot provide financing but the states can.

Ten states have legislation establishing state-sponsored export financing assistance for small business exporters although only seven states have appropriated funds and only three (Illinois, California, and Maryland) appear active. Since we began circulating information on how to develop export financing programs in August 1987, five states (North Carolina, Florida, Texas, Arkansas, and Indiana) have expressed interest in developing their own export financing capability.

An additional aspect of our efforts to avoid duplication with the states involves the concept of co-location. Under co-location arrangements, US&FCS offices continue to operate in their present form but share a physical location with their state counterpart agency. Co-location arrangements already exist in Maine, Rhode Island, Florida, Oklahoma, New York, Kansas, and Texas. US&FCS is currently negotiating new and innovative co-location agreements with Indiana, Michigan and Nevada and on April 6 signed a co-location agreement with New Mexico.

Because these co-location agreements bring both US&FCS and state agencies into the same physical space, duplication is virtually eliminated in terms of how either of the parties promotes involvement in international trade.

We are also studying non-Federal alternatives to providing export services. The results of this study, which will be completed by the end of FY 1988, will influence the future relationships between our offices and state government agencies.

GEORGIA

FY 1988
FEDERAL/STATE COOPERATIVE PLAN(S)

Atlanta District Office, U.S. and Foreign Commercial Service (US&FCS), U. S. Department of Commerce (USDOC), and Department of Industry and Trade, State of Georgia.

The Atlanta District Office and the Georgia Department of Industry and Trade in recognition of our common mission, to promote the economic well being of the State of Georgia and the United States of America primarily through increased exports, mutually agree to undertake the following actions in 1987-88 in addition to their regular efforts to advance export expansion.

SECTION I: Actions by the Atlanta District Office, US&FCS, U. S. Department of Commerce

1. Assign Lincoln R. Martinez, Trade Specialist as liaison with the Georgia Department of Industry and Trade. Such assignment is to coordinate the efforts of the two agencies in areas of mutual concern.

2. Meet with the Georgia Department of Industry and Trade at least monthly to discuss new programs, publications, and services of the U. S. Department of Commerce and to review existing programs, publications and services with the goal of eliminating duplication of effort and to develop joint efforts to determine prospects with high potential for new-to-export and new-to-market counseling.

3. Provide in-office training for the Department of Industry and Trade as needed.

4. Support Department of Industry and Trade legislation consistent with US&FCS policy through support materials, expert witness and promotional efforts.

5. Refer clients to the Department of Industry and Trade where appropriate.

6. Review the District Office Annual Work Plan with Department of Industry and Trade for input and cooperative ventures.

7. Exchange information for newsletters and use District Office newsletters to feature Department of Industry and Trade programs.

8. Provide copies of news releases, speeches, and other appropriate materials on U.S. international trade policy to the Department of Industry and Trade.

9. Provide full details on Matchmaker events which are part of the Atlanta District Office agenda for promotion.

10. Provide international reference aids and other materials for the Department of Industry and Trade's library.

11. Develop a plan to assist the Department of Industry and Trade in the recruitment of companies for GDIT promoted commercial exhibits, trade missions, etc.

12. Pursue jointly the possibility of utilizing, through formal agreements, existing organizations to promote Federal/State export promotion efforts.

SECTION II: Actions by the Georgia Department of Industry and Trade

1. Meet with Atlanta District Office Trade Specialist, Lincoln R. Martinez at least monthly for the purpose of mutual briefing of current business conditions, promotions, programs, etc., of the two agencies and to investigate ways and means of dissemination to the business sector and the public in general the programs of the State and the Department of Commerce to enhance the overall economic growth of the State of Georgia.

2. Work closely, on a continuing basis, with the Atlanta District Office in the promotion and sponsoring of business seminars and conferences throughout the yea .

3. Be responsive to the Atlanta District Office for any requests for assistance with regard to State economic statistics and other information as requested.

4. The Department of Industry and Trade will be represented on the District Export Council to assist in fostering the efforts of export expansion.

5. Exchange trade leads and business development leads with the Atlanta District Office.

6. Assist the Atlanta District Office with various seminars, conferences, etc., that are conducted.

7. Advise the Atlanta District Office of plans for any State trade mission to facilitate Washington and overseas support. Consideration should be given for all missions to be IOGA status.

8. Provide the Atlanta District Office with manufacturing directories and other materials and information that assist in expanding exports.

9. Exchange information for newsletters and use newsletters to feature Department of Commerce programs.

10. Assist the Atlanta District Office on the creation of a State calendar of export related events. (GDIT and the Atlanta D.O. contribute to a calendar maintained by the World Trade Club.)

11. Provide the Atlanta District Office with results of Trade Opportunity Program surveys indicating new-to-export and new-to-market penetrations.

12. Other assistance as needed.

NOTE: Signed original copy of plan (signed by Commissioner George Berry and Director George T. Norton, Jr.) on file at the Atlanta D.O.

Question: Who are the Service's primary clients? Existing exporters? Small firms? New exporters? What kind of service do they most often seek?

Answer: While US&FCS information products and services are available to any U.S. firm, the US&FCS' role is geared to small and medium-sized companies in every phase of the exporting process. Clients visiting the US&FCS domestic offices most often seek counseling to learn how to get started in exporting, to find new overseas markets for their firms' products or to increase sales in their current overseas markets.

The US&FCS has numerous export promotional materials available for clients including A Basic Guide to Exporting, a "how-to" manual on the mechanics of exporting. The US&FCS can help clients find overseas agents or distributors for their products through the Agent Distributor Service (ADS) and can provide bona fide information on foreign firms through World Traders Data Reports (WTDR). Firms may promote their products by participating in Commercial News USA (CNUSA), the US&FCS' export magazine distributed by overseas posts to agents, distributors and end users.

Commercial Officers located in major markets overseas provide clients with on-the-spot trade facilitation and market information. This tends to serve the needs of already established exporters rather than introducing new firms into the export business.

The US&FCS' worldwide offices provide the critical link between U.S. firms and overseas markets. This link is demonstrated in the "HOT TOPS" program, in which trade leads with high potential are identified at overseas posts and sent to designated domestic offices for immediate dissemination to U.S. firms. Firms close the loop by contacting the overseas buyers to pursue sales opportunities.

Question: Describe the results of any efforts you have made to monitor the effectiveness of various export promotion programs. Have less effective programs been eliminated?

Answer: The US&FCS monitors efforts in a variety of ways including collection of statistical data on program accomplishments from participants in our Foreign Buyer Program, overseas trade fairs, missions and video/catalog shows and Matchmaker events, and the Commercial News USA publication. This information is drawn from end-of-show reporting forms and brief user surveys.

The attachment synopsizes FY 1987 program outputs for selected trade promotion programs. Statistics include: numbers of program users (and in some cases their user profile), sales/trade leads, joint agency agreements, off-

the-floor exhibit sales, etc., for trade events; firms receiving counseling, numbers of foreign visitors, etc., for Foreign Buyer Program Shows; and data on the results of companies participating in Commercial News USA. In some cases this information is not complete, since by law we cannot require companies to provide it.

Over the FY 1987-88 period, the US&FCS has made a number of major modifications in its programs in order to make them more effective, to increase their utility to U.S. firms, and streamline their operations. Example include:

- Trade Opportunities Program--in FY 1988, this program was totally revamped. The format was expanded to allow more detailed description of export sales leads, and through use of and electronic bulletin board, dissemination of leads was vastly increased. Today, over 134,000 U.S. firms and export multipliers have regular access to leads either electronically or in printed form in publications such as the Journal of Commerce. A new "HOT TOPS" pilot was also launched to provide special district office follow-up for a selected number of high quality sales leads. Based on surveys of posts and district offices, this pilot will be expanded to 24 countries.

- Catalog Shows--this technique was reduced in FY 1988 and resources applied to Matchmaker Delegations, Super Catalog Shows and Foreign Buyer Program Events.

- Super Catalog Shows--new for FY 1988, this derivative of traditional catalog events, was specially developed for high potential markets, such as Korea. Lower cost than catalog shows, they feature up to 5 times as many participants from a broad spectrum of industries (700+ companies will participate in the upcoming Korea event). This technique is also being applied very successfully to South America.

- Matchmaker Trade Delegations--expanded to 9 events in FY 1988, these low-cost trade delegations fill a critical need: opportunities for new-to-export/new-to-market firms to meet with qualified foreign agents and distributors. Derived from the traditional trade mission, they are focused solely on novice exporters, feature a series of appointments with pre-screened foreign contacts, and usually span a broad theme.

- Foreign Buyer Program--this highly effective export vehicle was expanded by 20% from FY 1987. Eighteen shows will be supported this year.

- Commercial News USA--in FY 1988 this program was made even more effective through a new format which featured multiple size program listings, and special regionally focused issues recruited by states. Improvements in overseas distribution increased circulation to over 110,000 readers per issue.

Attachment
Selected Results of US&FCS Programs and Services
FY 1987

Service/Product	Result
Basic Guide to Exporting publication	23,000+ copies sold to date
Commercial News USA publication	Typical participant signed contracts with 35-40 new agents and made $10,000 in new sales. Participation satisfac tion rating greater than 90%. Overseas circulation has increased by 47% since FY 1985 (100,000 readers per issue).
Catalog/Video Catalog exhibitions	600+ companies participated in 18 shows, generating average of 50 trade leads for each firm (30,000 total)
Trade Opportunities	With recent changes, numbers of companies receiving TOPS has increased from 4,000 to 130,000+.
Trade Fairs and Missions	Over 2,800 firms participated in 99 trade shows and 43 trade missions. Over 40% of participants were NTE or NTM; 81% were small or medium sized. Reported results were: Number of visitors....4,745,841 Off-the-floor sale.$202,375,630 Sales leads..... 62,358 Agent/rep agreements.... 743 License agreements..... 270 Joint venture agrmts.... 91
Trade Fair Certification	24 fairs were held; 465 U.S. firms participated, over 40% of which were new-to-market. Over 1,000,000 foreign visitors attended them. [With new program changes expect the number of certified fairs to double during FY 1988.]
State/Industry Organized Government Approved Missions	35 missions were supported (30% increase since FY 86). [Note data on joint ventures and sales is available on selected missions only.]

Foreign Buyer Program	15 events were held, giving over 2,700 NTE/NTM firms an opportunity to meet 51,000+ foreign business visitors here in the U.S. Over 750 U.S. firms received one-on-one counseling.

Question: You are requesting an increase of $9,200,000 for the U.S. and Foreign Commercial Services. You indicate on page ITA-3 that these funds are needed "to offset the loss of purchasing power overseas since early 1985 and to take advantage of the increased market opportunities as a result of the decline in the value of the dollar."

How did you cope with this loss of purchasing power in the past years?

Answer: Both the International ~~Trade Ad~~ministration and the U.S. and Foreign Commercial Service have instituted hiring freezes periodically since 1985. Less labor available has required the shrinking of the officer corps to the current 151 Foreign Commercial Officers overseas and reducing Foreign Service Nationals to less than 450. Additionally, over 150 contract hires have been let go. In addition, American assignments have been extended to the maximum permitted by law wherever possible to postpone relocation costs. Training has been reduced to minimal professional and statutory requirements.

Program monies have also been sharply curtailed. In real dollar terms, we are spending between 25% to 50% less than in 1985. Because these costs are most often paid in local currency, the true loss in purchasing power is far worse. Field travel to visit possible foreign importers of U.S. products is undertaken only when the sale is highly probable. Long distance telephone calls are initiated only to close a deal, not to interest a first-time exporter in a possible sale. Capital equipment is irregularly maintained and infrequently replaced. Newsletters advising host country businessmen of the potential profits from the sale of U.S. made goods have been discontinued or revived only on a subscription basis and to a smaller audience. Although international business depends more and more on FAX and TELEX, the Service has not been able to fund full participation in this world-wide revolution in communications.

Question: Hasn't the decline of the value of the dollar, by itself, led to increased U.S. exports, regardless of the level of U.S. and FCS program activities?

Answer: Yes, the decline in the value of the dollar does spur exports. Yet now is the time to restore Foreign Operations activities so that the US&FCS can help others become exporters or increase their exports and thus capitalize on the decline in the value of the dollar.

Other countries capitalized on the rise in the price of U.S. exports from 1978-79 through 1985 by expanding their market share of exports. They appear ready to maintain their share by decreasing their profit margins and by continuing to capitalize on public recognition of their products. To gain a larger export market share for U.S. exports, this country must publicize the availability,

costs, and potential profits to be made from U.S. exports. This export promotion is a principal task of the U.S. and Foreign Commercial Service.

Question: You state on page ITA-52 that $996,000 of the requested increase is needed to restore critical training programs and to support travel for Management Program Reviews and regional coordination.

How have these management functions been adversely affected by depreciation in the value of the dollar?

Answer: Some of the mandatory expenses paid by Field Operations Management are actually overseas costs. For example, travel to post on assignment, home leave, medical expenses and medical evacuation are costs which arise overseas but are paid centrally because it is easier to manage the funds centrally. As these mandatory costs have risen due to the depreciation of the dollar, other non-statutory programs, such as much of the training, have been reduced or abandoned.

Also, training costs have a large international travel component as do Management Program Reviews and regional coordination. These non-dollar costs, themselves increased due to dollar depreciation, have been squeezed out due to the rise in mandatory costs.

Question: What are Management Program Reviews? What is the Congressional mandate for these reviews? How many of these reviews have been performed and how many are scheduled?

Answer: Management Program Reviews (MPRs) are examinations made by the US&FCS, in conjunction with other ITA units, of the programmatic and administrative activities of the US&FCS. They are conducted on-site by a team, usually of three or four persons. The following areas are examined:

- Effectiveness of US&FCS programs, office procedures and relationships with non-US&FCS entities;
- Inventories of furnishings/equipment and suitability of office facilities and commercial officer residences;
- Physical security of offices and residences;
- Personnel issues, such as training and frequency of performance evaluations.

After several weeks of advance preparation, the team visits the inspection site, where it (a) interviews US&FCS employees and representatives of other organizations that work with US&FCS and/or use our services and (b) reviews selected documents and files. Findings are reported on-site to the senior official and a report with findings and

recommendations is prepared after the team returns to headquarters. Before an MPR is undertaken, US&FCS checks the inspection schedules of the Department's Inspector General (IG) and the State Department's inspection office to avoid overlapping or conflicting schedules.

The Congressional suggestion for MPRs is contained in the report entitled, Federal Government Export Promotion Activities: Oversight of Foreign Commercial Service - Thirty-Sixth Report by the Committee on Government Operations, dated April 11, 1984; page 17, item 11.

Thus far we have conducted MPRs of Boston and its branch offices; Lisbon, Portugal; Oporto, Portugal; Bern, Switzerland; Zurich, Switzerland; and Vienna, Austria. In addition, we recently completed a review of the HOT TOPS pilot program being conducted by US&FCS district offices and 10 overseas posts.

In addition, there are reviews, audits and inspections of US&FCS programs by non-US&FCS entities, such as the International Trade Administration, the Department of Commerce Inspector General, the Office of Management and Budget, U.S. Chamber of Commerce, the Congressional Research Service, and the General Accounting Office. From 1981 to date, US&FCS programs have undergone 57 of these non-MPR reviews.

This fiscal year, in addition to the HOT TOPS review, we hope to conduct MPRs of at least two district offices as well as posts in Spain and Morocco. Completion of the reviews will depend on availability of staff and funding.

With the funding provided in the President's budget, we intend to conduct MPR's at ten sites next fiscal year.

Question: Please provide details on your training expenditures for fiscal years 1986 through 1988 and the proposed expenditures for fiscal 1989.

Answer:

	FY 1986	FY 1987	FY 1988	FY 1989
Language Training.	100,000	108,500	120,000	125,000
U.S. Training.....	100,000	120,000	145,000	150,000
For. Ser. Nat'l Training.....	153,000	121,500	65,000*	180,000*
Total.....	353,000	350,000	330,000	455,000

* The figure is low for 1988 because the "Orientation to Industry" program was cancelled for the year due to a lack of funds. That program would be re-instituted in 1989 as well as the regional seminars which take place overseas and which were discontinued as an earlier cost-savings measure, at the end of 1985.

Question: On page ITA-52, you state that $8,204,000 of the requested increase will be used to improve overseas field support for U.S. exporters. Reduced export promotion activities at overseas posts are also cited as one adverse effect of the loss of buying due to the decline of the dollar.

The summary of workload and performance data on page ITA-51 shows significant increases, compared to 1986, in certain 1987 overseas export promotion activities e.g., post initiated events and overseas trade promotion events. Is this consistent with the above cited statement that export promotion activities have been reduced at overseas posts? Please provide details on specific activities which were reduced due to the decline in value of the dollar.

Answer: Yes, this is consistent. Both post-initiated events and overseas trade promotion events, which increased 13% and 43% respectively from 1986 to 1987, are self-supporting through fees or contributions. For example, costs such as contract labor, space rental, and publicity are recovered through participants' contributions. For this reason, reductions in appropriated funds have less impact on these programs' outputs. Also, in the case of overseas trade promotion events, the numbers of events can be misleading, because they do not reflect changes in the mix of event types and profile of program participants, e.g., fewer new-to-export (NTE)/new-to-market (NTM) participants from year to year. A catalog event, for example, may consist of 75-100 participants and have an average cost per participant of $250; whereas a trade mission might have 6-8 participants and a $2,700-$5,000 cost per participant.

While we are managing our resources more efficiently, the decline in US&FCS purchasing power, the Service could be more. Two activities that are particularly important to NTE/NTM firms, counseling and information products, reflect the impact of losses in buying power. The number of business counseling sessions overseas declined from 152,740 in 1986 to 113,931 in 1987, a 25% decrease. Counseling is both labor intensive and has not been amenable to cost recovery. For this reason, reductions in the relative value of appropriated funding has a major impact on program outputs. Current funding allows only 151 Foreign Commercial Service Officers and about 450 Foreign Service Nationals overseas, a significant reduction from 1985 and 1986 levels. As a result, counseling will continue at the lower, 1987 level, unless buying power is restored.

Ironically, the full impact of declining purchasing power is masked by increases in demand that have occurred from companies anxious to take advantage of new exporting opportunities. The demand for our services is growing, at the same time that the cost of responding to that demand is rising. The overseas costs involved in generating

information products have escalated, making it increasingly difficult to maintain quality and timeliness and at the same time, keep product prices within small firms' reach. While user fees are charged for these products, they do not recover all of their associated costs. As a result, posts have had to absorb some of the costs of developing this information from their limited appropriated funds budgets and shift their Foreign Service National staff from other activities in order to continue to provide these services. In some cases, posts have asked for a moratorium on information products tasking due to both increased demand and reduced staffing.

Question: It is stated on page ITA-53 that without the additional requested funding a minimum of 18 FCS and 30 FSN positions will be left vacant. Please specify, by country and by length of vacancy, where these vacancies exist. Are any of these vacancies in countries where the value of the dollar has not depreciated significantly? If so, could these positions be transferred to those countries where dollar depreciation has been significant and where, therefore, increased market opportunities may exist?

Answer: Current funding will not support all of our authorized positions. The vacancy projection represents the shortfall between positions authorize at the time the budget was prepared and the number that could actually be funded without the requested increase. Because of the continuing need to reassign officers, the location of current vacancies is not a valid indicator of vacancy locations in FY 1989. Therefore, at this time, we have not designated 48 positions to be vacated or abolished in 1989 should the increase not be approved. Rather, we expect to manage the funding shortfall by delaying the hiring of replacements as positions are vacated by attrition or rotation and evaluating post staffing needs on a continual basis. Should projections during 1989 indicate that attrition will not provide enough cost savings, we will then decide which positions to vacate based upon the situation at that time.

The Resource Review Committee meets periodically to evaluate where resources, both personnel and funds, can be best used. Market conditions and competition by other nations are important factors in the Committee's deliberations.

It is true that the relative weakness of the dollar against major foreign currencies aids in the competition with domestic manufactures in countries such as Germany and Japan. But a weakened dollar also enables U.S. products to compete more effectively against products from Germany and Japan in other markets, such as Third World countries.

FOREIGN TRADE ZONES

Question: Has Commerce estimated the amount of annual tariff revenue foregone due to the Foreign Trade Zone program? If not, why not?

Answer: In reviewing potential benefits to zone applicants, the Foreign-Trade Zones (FTZ) Board considers the savings they are seeking and the extent to which those savings will help the zone user compete more effectively in the international market so as to stimulate desired economic activity in the United States. Zone users' savings are mainly in the form of duty deferral, duty avoidance (on exports), or duty reduction (when products made in zones are subject to lower duty rates, i.e. inverted tariffs).

The largest user of zone procedures is the automobile assembly industry. Currently, some 30 auto assembly plants pay duties on their foreign components is about 5 percent, whereas the rate on finished autos is 2.5 percent. We estimate an average saving of $1 million per plant. The industry points out that these savings contribute to their overall cost-reduction efforts in competing against imports of finished autos, which have climbed in recent years to some 30 percent of domestic market sales. The foreign-made autos are subject to a 2.5 percent duty rate. The domestic plants cite the element of fairness associated with their ability to choose the same lower rate paid by their foreign competition.

Overall, it is estimated that the reduction in duty collections through zone activity amounts to some $50 million on imports, and to some $18 million on exports for the nation. The FTZ Board's decisions are made on the basis that these reductions in revenue are more than offset by the economic activity zones help stimulate. The underlying reasoning here is similar to that associated with revenue losses resulting from reduced duty collections when imports into the United States from abroad drop.

Question: Has Commerce discussed with OMB and the Treasury the desirability of including the revenue effects of the Foreign Trade Zone program in the tax expenditure budget? What are your views on the appropriateness of such action?

Answer: Commerce has internally considered the revenue effects of the FTZ program, and has not found it appropriate to discuss the matter further with Treasury or OMB officials because it has determined that the overall impact on the budget is positive. The Customs duty payments that are "foregone" translate into reduced costs of production for U.S. operations in competition with foreign plants. Because the Board only approves operations when it finds a positive net economic effect, the net result is increased or sustained U.S. production

and employment, both of which generate other forms of Federal tax revenues.

Question: What consideration has been given to tariff revenue effects in analyzing and approving Foreign Trade Zone applications?

Answer: The tariff revenue effect is taken into account by the FTZ Board in its assessment of the net economic effect of zone concept, and their consideration is implicit in the economic analysis involved. While the FTZ Act "entitles" U.S. Customs ports of entry to zones upon meeting what are essentially technical criteria (e.g. adequate facilities and security, and ability to finance), the Board recognizes that individual operations, especially manufacturing, must be evaluated on a case-by-case basis in terms of the public interest.

A number of economic factors are considered, as are trade policy and industry impact in the sectors involved. Underlying the Board's review is a consideration of the economic activity that zones are intended to help stimulate, and the multiplier effect. Unless the Board finds a net positive effect that offsets revenue "loss," it would not approve a proposal. While the evidence in many situations is not clear cut, the Board reaches its conclusions on the basis of the best available evidence, taking into account the extent to which the industry involved is subject to foreign competition.

The underlying rationale for zone procedures is to help develop and maintain operations in the United States that might be located abroad. The evidence submitted in individual cases usually relates to helping stimulate exports or domestic activity that displaces imports of finished products. The FTZ staff can provide specific examples on request.

Question: What efforts have been made to provide resources to deal with the greatly increased volume of applications for action by the Foreign Trade Zones Board?

Answer: During the past year an additional clerical position was assigned to the FTZ staff.

We are presently awaiting the results of the GAO study on zone operations undertaken for the Congress, and plan to evaluate our resource needs further based upon GAO's findings and any direction we receive from Congress. A complete revision of the regulations of the FTZ Board has been undertaken, and we are withholding its publication for proposed rulemaking until we assess the outcome of the GAO study.

MINISTER COUNSELOR RANK

Question: In the Continuing Resolution we authorized the Secretary of State to appoint up to 8 senior commercial officers to Minister Counselor rank. On February 26th the Department of Commerce requested such rank for the top FCS officers in Ottawa, Bonn, Rome, Tokyo, London and Mexico City. Has the Secretary of State approved those appointments?

Answer: Yes.

Question: That takes care of 6 of the 8, what are the plans for elevating the other 2?

Answer: The paperwork for Paris will be submitted as soon as the incumbent Senior Commercial Officer's appointment to the Senior Foreign Service is confirmed by the Senate (in approximately 30 days). For Beijing, the SCO is not as yet eligible for the title because of his personal rank.

STUDY ON IMPORTED COMPACT DISCS

Question: In our Report 100-182 the Committee asked for a report not later than May 1, 1988 of a study analyzing the impact that imports of compact discs have on the U.S. compact disc industry. We have not received that report and would appreciate your explaining why it has not been transmitted to the Committee.

Answer: The Department has not conducted this study because there are no public sources of information regarding the extent and history of CD production in the United States. An investigation, such as the one requested by the Appropriations Committee, is therefore impossible without extensive and detailed surveying of the domestic industry. The Department recommends, therefore, that this study be carried out by the U.S. International Trade Commission which, unlike ITA, has the legal authority to gather the necessary information from private sources. The likelihood of voluntary cooperation in an ITA-conducted study is slight, as the type of pricing information needed from producers is sensitive.

SEMICONDUCTOR AND ELECTRONIC INDUSTRIES PLAN

Question: For fiscal year 1988 the Committee provided $1,500,000 to ITA to fund a plan to restore international competitiveness of the U.S. semiconductor and electronic industries. We asked for a report on that plan no later than January 5, 1988. We have not received that plan and would appreciate your explaining why it has not been forthcoming.

Answer: ITA plans to undertake this study of the U.S. electronic and semiconductor industries and to develop a competitiveness plan. The study has just begun and we plan to provide the Congress with a completed study late in the year. In this effort, ITA will examine a group of electronics industries including semiconductors. We plan to conduct at least part of the study in house and are considering the possibility of soliciting for industry assistance.

COMMERCIAL INFORMATION MANAGEMENT SYSTEM

Question: What is the status of CIMS implementation? Exactly how many locations--both domestically and overseas--is CIMS fully operational? At these locations, precisely what type of information is available from the system and at what dollar cost?

Answer: At present, CIMS is fully functional in Washington D.C. and at 24 of 48 domestic field offices. The remaining 24 domestic offices, as well as 20 branches, are scheduled to be fully functional by July 15.

Overseas, CIMS is partially operational in Brasilia and Mexico City. These sites are the original test sites for the overseas version of the CIMS system. Both will be fully operational by May 25. Tokyo is now coming on line. Installation of all overseas sites is scheduled to be completed by the end of this calendar year.

All fully operational domestic offices are currently able to access organizational and product-related information on domestic U.S. firms interested or engaged in exporting; like information on overseas firms interested or engaged in purchasing or distributing U.S. goods and services; and a growing body of country, sector, and subsector-specified market research.

Fully operational overseas offices will be able to access electronically all of the same data which is available domestically with the exception of the market research data, which is by and large originated by the posts and is therefore already on hand. Where posts desire research which they did not originate, this research will be provided to them on diskette for their local review and use.

ITA offices are not charged for the information they obtain from CIMS. U.S. businesses obtain information contained in the system in the form of customized information packages developed by ITA District Offices. For bulk users of CIMS information, such as other government agencies and private sector data base services, ITA will produce data tapes containing large subsets of the full data base at an annual subscription cost.

ITA will also produce, and distribute through its domestic field offices, IBM PC-compatible diskettes containing

individual market research studies or collections of shorter market research articles on a given country-product sector combination.

Fees for all these products, packages and services are currently being determined and will be consistent with OMB Circular A-25 and the Departments statutory authority to establish such fees.

Question: What is your target date for completing the system? What are the remaining obstacles to complete implementation?

Answer: CIMS is scheduled to be fully implemented worldwide by the end of the calendar year. The Value-Added Network (VAN) is available and operating successfully. There are presently no significant obstacles to achieving full implementation within this time frame, but there is much work to be done. Full implementation will require installation of systems in the remaining district offices and posts, training of personnel, and development of an agreed-upon pricing structure.

Question: What type of response has ITA gotten from the business community in terms of requests for trade information? Have fees for the different CIMS products been established? If so, please provide a list of these fees.

Answer: ITA constantly receives and responds to requests from U.S. businesses for trade information of various types and has done so for many years. We provide information in a number of different ways and formats. CIMS is designed to ultimately permit our offices to respond to these requests with timely, high quality information tailored to each requestor's needs. Since CIMS is not fully implemented as yet, demand for CIMS products is somewhat limited. However, we are finding that district office access to, and use of, CIMS is growing rapidly.

With respect to user fees for CIMS products, specific fees have not yet been determined. However, various alternative fees schedules are being explored, and a final fee schedule will be established shortly.

Question: Since one of the major objectives of the CIMS system is to provide the business community with accurate and timely information, detail plans for keeping the system current. Specifically, how often do you plan to update CIMS files?

Answer: CIMS is designed to organize and maintain trade information which is gathered as a matter of routine by all US&FCS offices throughout the world. There are two main types of data:

- Firm-oriented data which is made available through CIMS is first collected and maintained locally in the CIMS computer facilities of each of ITA's 200 field sites. This data--additions, deletions and modifications to specific firm records--can be transferred electronically to, and automatically update, the central CIMS data base as frequently as daily in the majority of cases.

- Market research data--typically ITA prepares over eight hundred discrete market research reports annually. These reports come to ITA from its overseas offices in a steady flow throughout the year. Once it is reviewed internally for completeness and accuracy, this data is incorporated into the central CIMS data base within a matter of days.

In addition, Bureau of the Census and United Nations statistical data on imports and exports, which reside on computers at the National Institutes of Health, can be accessed by district offices using CIMS equipment.

BUREAU OF EXPORT ADMINISTRATION

TRANSFER OF FCS TO BXA

Question: Our Report (100-182) accompanying the 1988 Appropriations Bill, called for a report by March 1, 1988 of the number of the U.S. and Foreign Commercial Service positions and funds supporting the Bureau of Export Administration. On March 18th Assistant Secretary Bulow notified the Committee that the Department was unable to comply with the March 1 date and the report would be provided by April 1.

Mr. Secretary, it is now May 12 and we have heard nothing further since your letter of March 18th. While I can appreciate that the distribution of the FCS resources is not a simple matter, this report is long overdue. When will the report be submitted?

Answer: In answer to your request for a report on the status of the ITA/BXA separation, I am pleased to inform you that outstanding issues related to field support for BXA have been resolved.

Congress approved an initial split of resources in the FY 1988 Appropriations Act to support BXA field activity. This included the resources associated with the overseas positions exclusively involved in BXA activities and the resources contained in the budget increase requested for export administration work.

As you know, BXA has opened a Western Regional Office in the Los Angeles area. The resources for that office have

been made available from BXA's existing resources. Existing US&FCS personnel in other locations will continue to provide export control related services as they have in the past. The inherent economies of scale in this arrangement provide the most cost-effective means of support for export administration programs. We will monitor operations to ensure that these units work together, and to identify opportunities for improvement.

EXPORT CONTROL CENTERS

Question: Senator Cranston has written me of his interest in providing export control services in key high technology areas. Last month we approved the reprogramming establishing such a Bureau of Export Administration (BXA) office Los Angeles serving the Western States. In that reprogramming, Assistant Secretary Bulow stated that:

-The Department has no plans to establish additional BXA offices for other regions of the country.-

Senator Cranston believes to the contrary and points out that the Trade Bill contains an authorization of $4,000,000 for such Centers in fiscal 1989. Senator Cranston says that BXA has assured him that additional services in the field will be located in appropriate high-tech areas.

So that I might respond to Senator Cranston, for the record, what is the Department's position regarding the establishment of additional export control centers?

Answer: No additional separate BXA field offices are contemplated at this time.

Question: Did BXA or ITA request funding for these Centers for 1989? If so, how much was requested and was that request submitted to OMB?

Answer: Neither BXA or ITA requested funding for any additional Centers for FY 1989. BXA did, however, submit a FY 1988 budget supplemental to the Department for the establishment of an expanded Western Regional Office along the lines envisioned in the Berman Amendment to the Trade Act. The Department did not forward this request to OMB.

Question: Currently, the Department has allocated $436,000 and 13 positions for the LA office in 1989. If it were possible to appropriate the $4,000,000 authorized for the Centers, where and how would the Department allocate it?

Answer: Because the Department has no plans for additional separate BXA domestic field offices, I am unable to provide you with a proposed distribution of the $4,000,000.

EXPORT CONTROLS

Question: The Bureau of Export Administration has recently instituted an electronic licensing system for the submission of license applications. What has been the initial reaction to this system? What are the implications for the speed, quality, and cost of the export licensing process?

Answer: On January 21, 1988, the Export License Application and Information Network (ELAIN) was introduced. ELAIN permits Commerce to receive, process, and respond to export license applications electronically. This system uses the latest technology to enhance the processing of applications, improve quality, and reduce costs.

Of approximately 100,000 applications processed each year, conservative estimates project that at least 20 percent of these will be submitted electronically. For these applications, mail time will be reduced because transmission is instantaneous. In addition, since these applications are processed electronically within the Office of Export Licensing and by other agencies, in-house review time is reduced. In fact, some applications can be processed in as little as two days, and approximately 90 percent of the applications received electronically will require less than five days to process. This is a reduction of ten days for the current mail and in-house handling time.

Besides the reduction of processing times for these applications, OEL has enhanced the quality of review, through the development of the "precedent analysis program". This program, which is part of the Export Control Automated Support System's (ECASS) overall enhancement package, provides licensing officers immediate access to the histories of over one million past and present license applications to ensure consistency in licensing decisions. This program also enables our enforcement office to develop trends and check the licensing histories of certain entities and/or products.

The cost of the continued operation, maintenance, and development of ELAIN is included in the multi-million dollar, multi-year ECASS automation project. Over $2 million will be spent in 1988 to purchase equipment and services related to the further development of ECASS, of which ELAIN is only one of a number of projects. The Department may realize some indirect cost avoidance by the reduction in processing time associated and increased efficiency. However, the major benefit is to the exporting community, since reduced processing times means being able to ship commodities more quickly.

ELAIN's real benefit, therefore, is in helping U.S. exporters become more competitive in international markets and more responsive to their customers overseas, while

ensuring that U.S. national security interests are protected.

Question: To what extent does the export license application review process lend itself to the use of "expert systems",i.e. artificial intelligence, to either make or assist in the making of licensing decisions? What efforts are underway in this area? What is their anticipated cost and estimated future budgetary impact?

Answer: Depending on the definition of "artificial intelligence" ECASS could be called an "artificial intelligence" system. ECASS is based on a fourth generation language (4GL), it interacts with its' environment and has robust and sophisticated decision support assistance.

ECASS is not a cognitive system as the license process does not lend itself well to this approach. The process is not diagnostic in nature.

We plan, however, to continue to assess new products and "artificial intelligence" software as it appears in the marketplace, but we have no specific plans for the development of a cognitive license processing system.

Question: There has been much discussion lately of reducing the control list. What are the status of such efforts? How would a substantially reduced control list affect the Bureau of Export Administration's budgetary needs?

Answer: Our efforts to streamline the Commodity Control List continue in association with our allies in COCOM. Our most recent efforts have resulted in easing export control restrictions on low-level personal computers, floppy disk drives and diskettes, and equipment containing "embedded" computers. Since the largest category of U.S. high technology exports is computer and computer-related items, this easing of control will be beneficial; particularly since there is wide availability of lower-level PC's from the Pacific Rim countries.

As for the effect such efforts have on the budgetary needs of BXA, it should be noted that as quickly as we succeed in decontrolling low-level technology, new, more sophisticated technology gets added to the control list. In fact, with each list review to date, more items get added on than are removed. Our efforts in the list review process, therefore, include evaluating each new technology and setting U.S. policy on its control.

We anticipate that the export control process will become more complex with the advent of more sophisticated, technology, which will require steadily increasing levels of Commerce technical expertise. Technology on the list will be more sensitive and, therefore, require more complex technical review. As the number of higher level

technology exports increases, so will the administrative burden of reviewing license applications and policing compliance.

Overall, the net effect of removing lower-level items from the control list will be to allow BXA to effectively focus its efforts on controlling truly sensitive technology.

Question: Prior to the creation of the Bureau of Export Administration, the International Trade Administration encompassed both the export control function and the Foreign and Commercial Service, which assisted exporters in export control matters and performed other activities such as pre-license checks. Now that he FCS is in a different organizational entity, what support is Export Administration receiving from FCS, what is the cost of that support, and who is providing the necessary funding?

Answer: The FCS performs pre-license and post-shipment checks for Export Enforcement in many countries. The cost of FCS's export control activities is factored into the FCS budget every year. Since its creation as a separate organization, the Bureau of Export Administration has not transferred funds to the FCS to cover these activities.

From time to time, OEE has supplemented the FCS resources. For example, in the case of South Africa, we have sent an OEE investigator on three separate occasions to clear the backlog of pre-license and post-shipment checks. In the two overseas locations where OEE has stationed permanent attaches, the administrative costs have been split equally between FCS and OEE.

Question: The Bureau of Export Administration is in the process of opening a western regional office in Los Angeles? What will its function be, how will it be staffed, and what will it cost? How is it expected to affect the export licensing process?

Answer: The establishment of BXA's regional office is intended to provide western regional exporters a wide range of counseling services on our regulatory and licensing programs. Because the United States maintains more export controls than any other country (e.g., National security, foreign policy, short supply, and nuclear non-proliferation), the export control regulations are consequently complex. An active Commerce outreach program and easy access to Commerce export control personnel is vital to the business community in order to avoid violations of the law. This regional office is part of Commerce's continuing improvement of its services to America's business community, services designed to help speed exports to foreign markets. The office will be staffed by 13 personnel trained at the Commerce Department's Washington headquarters at a cost of $436,000 annually, and will provide licensing assistance services and assistance to exporters and help them comply with U.S.

Export Control Regulations. To ensure prompt processing, the center will be electronically connected with the export licensing operations in Washington, D.C. The office will also audit West Coast distribution license holders and hold seminars for the business community within the region:

Specifically, the office will do the following:

- Provide exporters with detailed assistance in the preparation of license applications and specific guidance on other licensing and regulatory requirements;

- Assist exporters with questions on the Commodity Control List and help exporters prepare commodity classification requests;

- Provide authorized information about export enforcement issues and work closely with the Bureau's Export Enforcement offices in San Francisco and Los Angeles;

- Conduct training sessions and seminars on export licensing matters and maintain a full complement of export administration publications and forms for use by the local exporting community;

- Assist firms in determining the correct licensing mechanism and in meeting the requirements of special license authorizations such as the Distribution License for multiple export shipments; and

- Conduct export licensing systems reviews and audits of companies holding a U.S. Distribution License, providing guidance on the development and maintenance of a company's Internal Control Plan and approve the adequacy of company plans. These control plans are designed to prevent the diversion of sensitive commodities to prohibited end-users or end-uses.

Question: The Export Administration Amendments Act of 1985 delineated Commerce Department and Customs Service export control enforcement responsibilities. How has this provision of the Act been implemented? How has it affected the efficiency and effectiveness of enforcement efforts?

Answer: On October 11, 1985, after consultation with the Department of the Treasury, Commerce published the Federal Register notice of the two organizations' respective responsibilities as mandated by the Act. Since that time, both organizations have promulgated internal guidelines for implementing that notice. Although there is clear understanding of the two agencies' role in some areas, there are other areas where further clarification of the respective agencies' roles is needed. We are working with

Customs to resolve these issues and improve the efforts of both agencies.

Question: Significant progress has been made in reducing average license application processing time. What further progress does the Bureau of Export Administration believe can be made in reducing processing time? What progress has been made in reducing processing time for Soviet bloc applications?

Answer: Overall average processing time for all license applications was 60 days in 1984 and is only 14 days today. Average processing time for COCOM countries (our major trading partners) dropped from 46 days in 1984 to 4 days today. We are committed to reducing processing times further. Electronic submission and processing of applications should further reduce processing times. Currently, an electronically filed license application not requiring interagency referral is processed in three days. As more applications are submitted and processed electronically, average processing time should decline.

Soviet Bloc applications require a considerably longer processing time because of necessary interagency and COCOM referral. Here, processing times for applications not requiring referral to other agencies has been cut to about three weeks now, down from over three months in 1984. Referral cases, especially those that must be sent to COCOM in Paris, still take about two months to complete. Even in these instances, we believe that processing time for Soviet Bloc applications can be further reduced through increased automation.

Question: Over the past several years a number of general licenses have been introduced, eliminating the need to obtain individual validated licenses. How has this affected the number of individual license applications processed annually? How has any reduction affected the numbers of licensing officers needed and their review of specific license applications?

Answer: During 1986 and 1987, Export Administration implemented several new General Licenses aimed at facilitating exports of lower-level technologies to COCOM and other Free World destinations. General Licenses are now available to cover an estimated 10 to 20 percent of items that would normally require a validated export license. However, exact figures regarding the use of these licenses cannot be obtained because exporters are not required to report the frequency of shipments made under these licenses.

During FY 1986, Export Administration processed over 116,000 license applications and approximately 105,000 applications for FY 1987. Estimates project that the Department will process about 100,000 applications for FY 1988. These figures suggest that the Department's expanded use of general licenses has played a role in

reducing the number of validated license applications received over the past two fiscal years.

The latest data available also suggest that the 100,000 figure will remain relatively constant through FY 1989, due to a variety of factors. For example, while the Department continues to eliminate validated licensing requirements for shipments of low-level exports to COCOM and other Free World countries, controls over higher level items continue to be adopted as the U.S., and the COCOM member nations identify emerging technologies. In addition, exports as a whole tend to increase in response to world demand for more technologically advanced products so the licensing workload for licensing officers will not be appreciably reduced.

Overall, the Department's expanded use of general licenses has only removed the easy-to-process cases by eliminating the need for individual licenses for many low-level exports to COCOM and other Free World countries. The remaining license applications which the Department continues to receive, however, require more thorough review and analysis, and often require interagency concurrence to take into account the national security, foreign policy, and enforcement implications of the technology, destination, end-use, and end-user. A reduction in licensing personnel for the review of such applications may have detrimental impact on the Department's ability to make accurate and timely licensing decisions on these more complex export transactions which form the bulk of (U.S.) high technology exports.

It should also be noted, however, that Export Administration proposed a reduction of nine FTE within the Office of Export Licensing for FY 1989. This proposal was based on our expectation that efficiencies resulting from the implementation of the Export Control Automated Support System (ECASS) enhancements would eliminate the need for some manual support functions. The positions targeted, however, are not technical licensing personnel.

Question: The Defense Technology Security Administration (DTSA) advises the Bureau of Export Administration on license applications involving the Soviet bloc and selected Western countries. How does the Bureau of Export Administration factor in DTSA's recommendations on individual license applications? How useful has the DTSA's input been? What could be done to improve its usefulness? How often does the Bureau of Export Administration make licensing decisions that run counter to DTSA recommendations?

Answer: In the review of West-West cases, the Department of Defense advises Commerce on the risk of diversions to potential adversaries. Defense recommendations on these applications are reviewed by both licensing and policy experts. The recommendations are evaluated against existing law, policies and regulations based on the Export

Administration Act, the 1985 Presidential Directive on Defense Review of Certain Free World cases and specific country policy as determined by the interagency process, the Department of State and the White House. If the recommendation is not consistent with existing policy, Commerce weighs the information against current intelligence and enforcement reports. If after this review the recommendation is still found to be inconsistent, Commerce requests a reconsideration from Defense. If agreement on the licensing action cannot be reached, the case is then elevated to the Technology Transfer Steering Group.

Defense review of certain Free World cases has focused attention on the issue of Soviet acquisition of Western technology through diversionary efforts in the West. Since Defense began its review of Free World Licenses, there have been only a limited number of cases where Defense provided information not available to Commerce. Consequently, Commerce concurs in the findings of the General Accounting Office (GAO) that Defense review duplicates the Commerce review process.

Their resources and expertise would be more useful in defining militarily critical items.

Ultimate disagreements are the exception, not the rule, although delays associated with initial disagreement can adversely effect the competitiveness of U.S. industry. There have been several cases where Defense has recommended approval or approval with conditions but Commerce has denied them because the consignee was an unsuitable recipient of goods controlled to protect national security. For West-West cases, where Commerce and Defense disagree, Commerce must provide Defense the opportunity to escalate the case to the Technology Transfer Steering Group (TTSG) before taking action contrary to Defense. For West-East cases, Defense must concur in our action.

INTERAGENCY DISPUTE RESOLUTION

Question: In the past, decision making has been delayed by interagency disputes. What progress has been made in rapidly resolving such disputes? Please cite some specific examples. What policy issues are currently in dispute?

Answer: Commerce has vigorously pursued conflict resolution by re-energizing existing mechanisms such as the Advisory Committee on Export Policy chaired by Commerce's Assistant Secretary for Export Administration. Commerce has also established staff-level procedures for identifying interagency conflicts in a timely manner, and has established mechanisms for better coordinating Commerce and Defense technical review to insure that conflicts do not arise from misunderstanding rather than

policy disagreement. Effective interagency conflict resolution still remains to be achieved.

Question: Some time ago, a proposed Executive Order was sent forward from Commerce to establish a mechanism for rapid dispute resolution. What is the status of this proposed order? Why has it not yet been signed? Which agencies are opposed to it?

Answer: The Executive Order is still under interagency review. It has not been signed by the President because it is still undergoing interagency review. While the Executive Order is being discussed between the agencies, it is impossible to determine which agency or agencies are opposed to one or any particular draft of the Executive Order.

LICENSING

Question: Significant changes have been made to the Export Administration Regulations over the past several years, including the introduction or expansion of general licenses. A number of exporters have complained that the regulations are so complex that they cannot take advantage of changes designed to ease licensing requirements. What is Commerce's view about the complexity of its regulations? What consideration has it given to how the regulations could be made less complex?

Answer: We agree that the Export Administration Regulations have become too complex in some areas. In part, the increase in complexity is an unintended result of changes in the regulations designed to ease unnecessary licensing burdens. We are seeking greater public participation in our efforts to simplify the regulations.

The regulations governing technical data exports are perhaps the most difficult for exporters to understand. To address this problem, Commerce has initiated a comprehensive review of both the policy embodied in the regulations and the language used to implement this policy. At a public forum in February 1988, over 300 individuals contributed to the Department's effort to rewrite these regulations. Based on comments received at this forum and other suggestions provided by the Commerce Department's Technical Advisory Committees, we are preparing for publication in the "Notice and Comment," rulemaking for simplified technical data regulations.

Another area of concern to exporters is the breadth and complexity of the regulations governing computer exports. Commerce has attacked this problem on two fronts. We have negotiated in COCOM a significant easing of export restrictions on lower-level computers and we are preparing to publish in the Federal Register a reformatted version of the computer controls, which will be much easier to read and understand.

The simplification of export control regulations is a priority that Commerce will continue to pursue.

Question: The Defense Department has been involved in reviewing license applications to certain Free World countries for the past several years. What contribution does Commerce believe Defense has made to the licensing process by such review? To what extent have these reviews affected Commerce's licensing decisions? Should Defense continue to review these license applications?

Answer: The Department of Defense (DOD) has been involved in the review of certain Free World license applications for several years. Unlike its contribution to the review of Soviet Bloc applications, where it evaluates the military significance of dual use commodities, DOD's review of Free World applications involves only the evaluation of the potential for diversion to a proscribed destination. There are only a few cases where a licensing decision has been significantly altered because of information provided exclusively by DOD.

Question: Licensing is an important part of the export control system, but possibly a misunderstood one. What is the function of export licensing? What are the limitations inherent in the export license application review process? Specifically, to what extent can the licensing process be expected to detect falsified applications, particularly when goods are misdescribed to indicate that they have lower performance characteristics than they actually do? How would a licensing officer be expected to detect such a falsification? Have falsified applications ever been detected during the license review process? Please provide the number of falsified applications detected in fiscal years 1985, 1986, and 1987, and details of the nature of the falsifications and how they were detected?

Answer: The licensing process is designed to set predictable guidelines for legitimate transactions and screen out transactions which involve shipments which are not in the national interest or which are to parties not considered suitable recipients of sensitive U.S. technology. A license is issued to an exporter for a specific transaction. If exporters violate the terms of that license, or falsifies the application form, they are liable to criminal prosecution and/or administrative fines. The true value of the export licensing mechanism to educate exporters to U.S. export controls, and to serve as a disincentive to violations. It in itself, is not a foolproof mechanism, and is only as strong as the laws and enforcement efforts backing it.

Export Licensing officers often do detect inaccuracies or inconsistencies in applications and when warranted, they refer such applications to Export Enforcement for investigation. Exact numbers of such referrals are not available since there are many other reasons for referrals

to Enforcement and differentiation is not possible. For example, a licensing officer will often request that export enforcement run a detailed check on the end user named on an application just because it involves a sensitive commodity going to a country known to be a common diversion point, and/or the end user is unknown or is a suspicious party.

REEXPORTS

Question: The United States maintains that its export control requirements must be observed each time a U.S. good is exported or reexported from one country to another. There is a provision in the trade bill that would eliminate licensing for reexports of U.S. goods moving among COCOM countries. If U.S. licensing requirements are eliminated, how will the reexport of U.S. goods from a COCOM to a non-COCOM country be controlled? To what extent will such goods retain their U.S. identity for purposes of Customs control?

Answer: The elimination of U.S. reexport control for intra-COCOM trade will not affect licensing requirements for reexports to non-COCOM countries--i.e., a U.S. reexport license will still be required for transfers from COCOM to non-COCOM countries. Also, the reexport of U.S.-origin goods to non-COCOM countries will also be licensed by the host country. For example, a reexport of a U.S. computer from the U.K. to the U.S.S.R. will require both a U.S. reexport license and a U.K. license. This is exactly the requirements that exist now.

Question: Many of our COCOM allies do not control the reexport of their own products. How many of our COCOM allies control reexports of their own products? Which ones are they? What is the policy of those countries that do not control reexports? Once controlled goods leave these countries to whose laws are their subsequent reexport subject?

Answer: We know that West Germany and France have varying degrees of reexport control. We are urging others to move in that direction. The countries that do not have reexport controls maintain that they safeguard against reexports by carefully checking the bonafides of the original export. Once the controlled goods are exported, these countries maintain that controls are the responsibility of the recipient country.

ENFORCEMENT

Question: The Export Administration Amendments Act of 1985 gave the Department of Commerce specific export enforcement authority. How does Commerce measure the success of the export administration program? How successful have export controls been in preventing, delaying, or raising the cost of Soviet bloc acquisition

of controlled Western technology? What evidence is available to support this view?

Answer: We cannot quantify the exact costs to the Soviet bloc caused by enforcement of our export control program because we do not have access to the Soviet figures on the subject. We believe that the costs are substantial. We have little evidence of what the Soviet bloc would acquire if there were no controls. We do have substantial anecdotal and intelligence evidence indicating that the Soviets go to great lengths to subvert many of our controls and to undermine our efforts to get other nations to implement and enforce controls. From this we would conclude that our efforts cause them to pay far more for far fewer items than they would were there no controls.

Success in any law enforcement program is difficult to measure. We cannot say for sure the extent to which we have denied critical items to the Soviets. However, we continue to interdict shipments and apprehend violators of the Export Administration Act. We also continue to find and interrupt, through our pre-license check program, transactions that should not be approved. The number of civil and administrative cases for violations of the Export Administration Act have risen over the past seven years.

For example, in FY 1983 a total of 9 orders were imposed denying U.S. export privileges; in FY 1987, 23 orders were imposed. The 23 orders applied to 34 separate parties. Civil fines rose from $209,000 in FY 1983 to $676,000 in FY 1987. Total civil fines during that four-year period amounted to $7,021,000.

From FY 1983 to FY 1987, OEE criminal cases have resulted in 48 convictions. This number has remained fairly constant each year. However, the dollar totals for criminal fines have increased each of the last two years. In FY 1983, criminal fines totalled only $35,000. In FY 1984, the total jumped to $7,793,000. In FY 1985, this fell to $177,000. Since then, the total fines have risen to $1,175,000 in FY 1986 and $6,657,000 in FY 1987. The cumulative total since FY 1983 is over $16,000,000 in criminal penalties.

FOREIGN POLICY CONTROLS

Question: The United States also controls exports to further the foreign policy of the United States. To what extent do such controls create the impression that the United States is an unreliable supplier?

Answer: In general, foreign policy controls are recognized as a means for the United States to demonstrate its position with respect to the policies of other countries. The reliable supplier factor arises when there is a dramatic shift in policy that prevents completion of contracts and orders, follow-up sales, and after-sales

servicing. Legislative changes assuring contract sanctity, and regulatory changes that reduce extraterritorial reach of controls and allow one-for-one servicing, have reduced the impact of foreign policy controls and enhanced the reliability of U.S. exporters.

Question: Under the Export Administration Act, if a foreign policy control's purpose is symbolic then it can be maintained despite foreign availability of the controlled item. The result is lost exports, but no adverse impact on the target of U.S. displeasure. To what extent should the Act be revised to limit the President's authority to impose foreign policy controls for symbolic purposes?

Answer: We would not want to see the Act revised to limit the President's authority. There are many legitimate reasons for maintaining controls for symbolic reasons. The Congress has, in fact, mandated such controls on crime control equipment, terrorist supporting countries, and South Africa. The President should not be prevented from doing likewise when a country's actions are so reprehensible that a response is necessary.

UNITED STATES TRAVEL AND TOURISM ADMINISTRATION

USTTA LONDON OFFICE

Question: Mrs. Tuttle, before you assumed your new position, Senator Inouye wrote to you about his concerns regarding USTTA's London office. We now have Assistant Secretary Peterson's response and on Senator Inouye's behalf we have several additional questions.

Mr. Peterson mentions that USTTA's appropriation has been in the $11 to $12 million range since 1985. Would it not be more correct to say that the Reagan Administration requested only phase-out funding for USTTA for each of these fiscal years, and that it was Congress that provided the funding that kept USTTA intact?

Answer: In the past, the Administration has proposed different funding scenarios for USTTA. In 1985, the Administration requested a slightly reduced level of funding ($8.6 million) for USTTA. In 1986 and 1987, close-out funding of $4 million was sought. However, in 1988, the Administration proposed funding USTTA through a combination of direct appropriations and user fees ($12.2 million) as an alternative to closing down operations. While the Administration still strongly supports funding USTTA through user fees, the 1989 Bipartisan Budget Agreement limited the programs that could be funded through new fees. In 1990, the Administration is again proposing funding USTTA through user fees and we hope to have the Congress' support for this proposal.

Question: Mr. Peterson acknowledges the great demand for USTTA products in London. Therefore - move or no move - why were the 2 positions allowed to be vacant when there was so much work to be done?

Answer: The two positions were temporarily vacant because USTTA recognized that consumer walk-in traffic consumed a large share of the staff's time while representing a very small portion of the total demand. It was therefore decided to close the walk-in service while continuing to repsond to consumer telephone and mail inquiries as well as inquiries from the trade, the primary distribution point of information for consumers. The decision to close the consumer walk-in service in London which resulted in the two vacancies was further reinforced by a terrorist threat and a requirement by the U.S. State Department that the doors to the building housing USTTA's office be locked and a guard posted at all times.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION
NOAA REPROGRAMMING

Question: Since early February we have been hearing that NOAA needs to reprogram $33,000,000 in order to avoid 20 day furloughs in the weather and satellite services. While we are told that a reprogramming is under review, and that OMB has twice denied Commerce proposals, nothing has been forthcoming and we are now 7 months into the fiscal year. We have had many calls and letters from those anxious about the reprogramming.

Mr. Secretary, how can you manage the Department with a $33,000,000 requirement bouncing around between Commerce and OMB?

Answer: We have resolved the reprogramming issues and have submitted a notification on May 31, 1988.

Question: How much does the Department estimate would be available in one-time savings in NEXRAD and in Landsat that could be applied to this reprogramming?

Answer: Of the funds available for NEXRAD and LANDSAT operations in FY 1988, we estimate that $15,284,000 and approximately $2,000,000 would be unobligated for those programs at the end of FY 1988. These are not savings, however, since there are potential unfunded requirements for these programs in FY 1989 and beyond. If these funds were used for other purposes in FY 1988, increases in future year appropriations would be required.

PATENT AND TRADEMARK OFFICE

Question: The budget request proposes an increase of 163 positions (71%) to help speed up patent processing. Also, an increase in patent process automation funding of $5,592,000 (17%) is sought. However, the end result is only an expected decrease in average processing time from

19.4 months to 18.9 months, an improvement of only 2.6%. How do you explain the apparent small increase in productivity?

Answer: The Patent Process budget activity increase of 163 positions includes 110 for professional and 53 for clerical staff. These increases address the higher inventory of patent cases due to increased receipts of prior years as well as our anticipated receipts for 1989. This increase has been formulated to balance the processing stages of pre-examination, examination, and post-examination. The professional increase addresses the growth in the number of patent applications from the estimated 128,000 in 1988 to the estimated 132,000 in 1989. The clerical increase supports the higher examiner production in FY 1989. The increases to the pre-examination processing function address the increased application filings for which administrative examinations are conducted. An increase of $122,000 in patent printing permits the printing of 82,200 utility, plant and reissue patents processed in the pre-examination and examination functions.

The requested automation funding for APS of $5,592,000 does not support reduced pendency. APS funds are for deployment beyond Group 220. The goals of the APS is to improve quality in the searching process.

Within the Patent Process budget activity, the following increase directly supports the patent pendency reduction goal:

(dollars in thousands)

Line Item	Perm. Pos.	Amount
Examination-professional.....	+110	+$1,150
Examination-clerical.....	+53	+1,076
Patent printing.....	...	+122
Total.....	+163	+$2,348

These additional resources will assure maintenance of the 18.9 month pendency goal in 1989 and beyond. The following additional production units above 1988 are projected for 1989:

Unit	change
Mail documents processed	+273,833
Patent file orders filled	+14,830
Applications received/administratively processed	+4,000
Patent first actions	+3,038
Patent disposals	+4,000
Patent inventory reduction	-1,560
Patent pendency reduction	-.5

It is true that the pendency period declines by .5 months between 1988 and 1989. To help achieve this pendency reduction, the budget also calls for 4,000 more disposals. The positions and funding requested are needed to support these additional disposals and to increase the examiner

resources to cover continued increases in filings in subsequent years. The productivity of new examiners is limited by a 3-5 year learning curve.

Question: Provide a schedule of on-going automation projects showing for each project (1) the original estimated development cost and completion dates and (2) the current estimated development and completion date.

Answer: The first edition of the Automation Master Plan was submitted to Congress in December 1982, with endorsement by the Department of Commerce (DOC) and the Office of Management and Budget. It guided PTO automation for almost three years after its approval by the PTO ADP Coordinating Committee. During that period, many of the automation objectives were reached or substantial progress was made toward them. Others were delayed or needs for modification were identified as a result of developments during that period. As a result of these developments, automation priorities changed, necessitating changes to the Plan. In February 1986, a second edition of the Plan reflecting these new priorities was submitted to the Congress.

In April of 1987 the third edition of the Automation Master Plan was submitted to the Congress. The purpose of the third edition of the Automation Master Plan was to adjust automation program schedules to reflect current status and development expectations. The third edition of the Master Plan built on the second edition issued in February 1986 with no changes to the major assumptions underlying the automation program. The fourth edition of the Master Plan will be prepared to reflect the results of the Automated Patent System evaluations and to incorporate all of the latest information available regarding procurements, alternative computer systems architecture technology, and cost-benefit assumptions.

The budget request and supporting schedule for the FY 1989 budget submission are still consistent with the third edition of the Master Plan which originally supported the FY 1988 budget submission. The Automation Master Plan Summary found on pages PTO-54 through PTO-67 of the 1989 budget request to the Congress compares the original schedule of the third edition of the AMP with the current schedule supporting the FY 1989 budget submission.

Question: What management controls are used to assure that the various automation projects are completed on schedule, within budget, and perform as intended?

Answer: There are a wide variety of management controls in place within the Patent and Trademark Office, the Department of Commerce and points outside of the federal government. The following list shows those organizations involved in current oversight of the various automation projects.

- McDonnell Douglas: independent verification and validation of the Automated Patent System (APS); Program management; Administrative Control.

- MITRE: Independent quality assurance point for development effort; simulation modeling.

- Department of Commerce Review Board for the Evaluation of the Group 220 Testbed.

- Industry Review Board on APS chaired by the Director, Institute for Computer Science and Technology of the National Bureau of Standards.

- Automation Ad Hoc Advisory Committee.

- Department of Commerce Configuration Review Panel.

- (AIPLA) American Intellectual Property Law Association Group 220 Test Subcommittee.

- PTO Automation Issues Group.

- Department of Commerce Office of Information Resources Management.
- Department of Commerce Office of Inspector General.

- Advisory Committee for Patents and Trademarks.

- ADP Coordination Committee. (PTO)

- Patent Configuration Management Board. (PTO)

- Trademark Configuration Management Board. (PTO)

- Current Systems Configuration Management Board. (PTO)

Question: The budget refers to "performance contract-driven promotions." Please explain what this means and the amount of budget funds involved.

Answer: The phrase "performance contract-driven promotions" refers to the career ladder type promotions granted to patent examiners. These promotions are based upon successful performance in the present grade for at least the required minimum amount of time and demonstrated ability to perform at the higher responsibility level required by the next grade level, with appropriate production and quality. Promotions must be made by management according to the negotiated agreement with the professional patent examiners' union. These appropriate production expectancies, along with required levels of quality of examination, are included in the individual examiner's annual performance appraisal plan. No promotions or cash bonuses are granted unless these requirements and standards are met.

The FY 1989 budget includes and estimate of $1,460,000 to cover the cost of these promotions under the current heavy examiner hiring program to achieve 18 months pendency.

Question: The budget refers to the higher turnover of patent examiners. What was the actual rate of turnovers for FY 1987? What is the expected turnover rate for FY 1988 and FY 1989?

Answer: In FY 1986 the examiner attritions totalled 174. In FY 1987 the attritions were 147 resulting in an examiner turnover rate of nearly 11 percent. We are planning for FY 1988 and FY 1989 attritions to be 144 per year with average annual turnover rates in excess of 10 percent, offset by new examiner hires of 225 per year.

Question: The February 12,1988 issue of Science magazine published an article entitled "Patent Claim Buildup Haunts Biotechnology." The article discusses the backlog of unprocessed biotechnology patent applications. The expectation is that the number of applications, along with the backlog, will increase rapidly in the coming years. What are you doing and what additional actions are needed to reduce the pendency periods for these applications?

Answer: The Patent and Trademark Office (PTO) has embarked on a concrete 13-point plan to accommodate the increase in biotechnology patent applications that the PTO has experienced and assure a quality examination. In fiscal year 1987, the PTO received 3,100 biotechnology patent applications, a rate of increase of 11 percent over the prior three year period. The average pendency period for a biotechnology-related application is 29 to 30 months. The present inventory of pending biotechnology applications is 7,000 cases.

The PTO plan follows:

(1) Adjust examiner complexity factors;
(2) Obtain greater hiring authority from the Office of Personnel Management;
(3) Obtain engineering special pay rates for examiners;
(4) Reorganize Patent Examining Group 120 and consolidate all biotechnology responsibility from Groups 120,130, and 150 into a new Group 180;
(5) Hire as many new biotechnology examiners as can be trained by senior examiner staff;
(6) Increase overtime to the maximum level sustainable for several years;
(7) Accelerate technical and examining procedure training as much as possible;
(8) Monitor and publicize as necessary the procedure for requesting accelerated examination;
(9) Identify examiners in other Groups who can be transferred and retained to examine biotechnology applications in a reasonable period of time;
(10) Improve communication regarding PTO goals and needs and improve office performance in Group 120;

(11) Enhance search tools especially for searching DNA, RNA and protein sequences;
(12) Enhance technical and legal update training for all examiners; and
(13) Stimulate higher productivity in Group 120.

In addition, we met recently with the Industrial Biotechnology Association concerning additional suggestions that we are looking into including training and modifications to our practice relating to petitions to make patent applications special and examine them out of turn and ahead of earlier filed applications. We are also looking at other ways to hire and train a greater number of examiners than can normally be handled by our limited experienced biotechnology staff.

NATIONAL BUREAU OF STANDARDS

CENTERS FOR TRANSFER OF MANUFACTURING TECHNOLOGY

Question: Last year the Congress approved $5,000,000 to implement the new Centers for Transfer of Manufacturing Technology. The budget proposes no additional funds for the Centers in fiscal 1989 on the premise that the 1988 grants will be made late in the fiscal year and will cover the costs in 1989. While that certainly was not our intention, it is already mid-May and the regulations have not yet been published.

Mr. Secretary, what is holding up the issuance of the regulations and what does that indicate about the Administration's enthusiasm for this program?

Answer: The funds for this program were not appropriated until late December, 1987. At this time, immediate action was taken to implement the program. The Bureau intends to expedite the process as much as possible. Because this is a new program, the process involves the following stages:

- A Federal Register announcement will be published requesting comments on proposed rules.
- A comment period of 30 days will be allowed. During this time, NBS will hold two workshops to provide interested parties with additional information.
- A minimum of an additional 30 days will be necessary to analyze and incorporate comments.
- The final set of rules must be cleared within the Executive branch and published in the Register.
- A request for proposals will be released.
- Sixty to ninety days will be allowed for submission of proposals.

- A minimum of 30 days will be necessary for review of proposals by the Merit Review Board. The review will include site visits.

- The Director of NBS will make final decisions and announce the selection of the Centers.

- Approximately 45 days after selection are necessary to obligate funds.

We believe that excellent progress has been made as the implementation of a new federal program is a very complicated process. This is a multifaceted program which requires a lot of collaboration with state economic development organizations, research universities, and Community/Junior colleges.

Question: Our allowance was based on allocating $1,500,000 to each of 3 Centers and using $500,000 for 18 positions and other NBS administrative costs. However, NBS is proposing to use only $2,912,000 for grants and $2,088,000 for NBS costs.

Please explain this major difference between our allocation and your plans.

Answer: Plans to which you refer were presented in the NBS FY 1989 Congressional submission in January one month after legislation which contains the appropriation for the Centers.

In the intervening months NBS has been developing more detailed plans to carry out the Manufacturing Technology Center program. A Federal Register Announcement is being published requesting comments on the proposed rules for the program. Final plans will be developed on the basis of the comments received.

Question: How many centers would be supported by the $2,912,000?

Answer: The 1988 Appropriation will permit cooperative agreements to support up to three centers. An additional $600 thousand ($200 thousand per center) will support NBS technical staff working directly with the centers.

NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

Question: NTIA's budget request (NTIA-2) states that it will absorb mandatory cost increases by reducing the "lowest priority" efforts within each program. Describe NTIA's management process for assigning levels of priority to its activities and provide details on what specific activities, programs, etc., will be cut in FY 1989.

Answer: The Department of Commerce operates through a Management-by-Objectives (MBO) system ensuring that policy priorities are established, approved and monitored by the Department. In addition, NTIA has established an internal system to permit creation and tracking of priorities not included in NTIA's MBO package. These priorities are determined at the beginning of each fiscal year and reviewed throughout the year to ensure appropriate responses to changing circumstances.

As a result, it is impossible to say what specific activities will be reduced in FY 1989. Suffice it to say, however, that there will be a revised approach to international conference preparation, including reducing in-house preparation and increasing dependence on other participants; it is possible that time may be necessary to address and resolve frequency assignment and spectrum planning issues in some cases; and it is also possible that fewer refinements to NTIA's measurement capabilities will be undertaken.

Question: The budget request states that NTIA will continue to seek ways to enhance minority participation in telecommunications. Please provide statistics showing trends during the last 10 years in radio and television ownership and management by minority groups.

Answer: During the last 10 years radio and television ownership and management by minority groups has increased from less than 1% in 1978 to 2.1% today. Programs such as the Federal Communications Commission's tax certificate and distress sales policies, and NTIA's Public Telecommunications Facilities Grant Program and Minority Telecommunications Development Program, have contributed to the general increase in minority ownership. A dramatic increase in the number of new radio stations owned by minorities occurred in 1986 as a result of the FCC's creation of over 600 radio frequencies.

Attached is a breakdown of available data indicating minority ownership and management figures for further reference.

Question: Program decreases will result in NTIA reducing in-house preparation and increased dependence on others for international conference preparation (NTIA-3).

Has this reduction been coordinated with other agencies (State Dept. or FCC) to insure that their FY 1989 budgets provide funds to cover their increased conference preparations? Have the other agencies actually increased their budgets to cover this additional activity?

Answer: No, this reduction was not coordinated with other agencies but on an informal basis they are aware of NTIA's budget reductions for FY 1989. NTIA will continue to work closely with the State Department and the FCC to formulate U.S. positions and strategies.

Overall, U.S. participation in international conferences will not suffer, therefore, increases to other agencies' budgets are not required.

Question: What is the total amount of funding that NTIA will cut from international conference preparation?

Answer: International conference preparation will be reduced by $53 thousand in FY 1989.

Question: At a time when international matters are increasing in importance, why is it that NTIA is reducing its involvement?

Answer: In an effort to help balance the federal budget, NTIA's budget for international telecommunications will be reduced. NTIA will attempt to offset this reduction through economies and efficiencies.

Question: The budget request (NTIA-3) does not ask for funds for planning and construction grants for non-commercial telecommunications facilities since over 95 percent of the U.S. receives public broadcasting programming.

How has the program affected the availability of public broadcasting nationwide over the past 5 years?

Answer: PTFP has had a major role in making public broadcasting services available to the American people. PTFP has helped activate over 500 public broadcasting facilities and upgraded or expanded another 1300. Grants have gone to all 50 states, the District of Columbia, Puerto Rico, American Samoa, Guam, Virgin Islands, and the U.S. Trust Territories. The program has awarded approximately $324 million dollars in grants.

During the period from 1982 - 1987, estimated public radio availability increased from 75% to approximately 82%, and estimated public television availability has increased from 92% to 95%.

Question: Please provide a listing or map that shows the areas (5% of U.S.) that cannot receive public broadcasting programming. How many individuals reside in these areas?

Answer: According to industry estimates, there are only a few significantly populated areas without public broadcasting coverage, and these lack public radio service. They include:

1. Bay City, Michigan (500,000 people)
2. Long Island* (2,500,000)
3. Northeastern Pennsylvania (250,000)
4. Hagerstown, Maryland (200,000)

*Served by fringe signals from New York City and Connecticut. Portions of Long Island are also served by a 1,000 watt station in Southampton (WPBX) and a 4,000 watt station in Stony Brook (WSUB).
Also with notable coverage gaps: portions of Texas, the Rocky Mountain Region, and Alaska. According to estimates, 5% of the U.S. population, or 12,110,000 people, are without public television service, and 18%, or 43,596,000 people, lack public radio service.

A copy of the coverage maps provided by the Corporation for Public Broadcasting follows. More detailed listings of regions lacking public radio and TV signals will be provided in NTIA's study of public broadcasting coverage when it is completed.

Question: How much funding would be required to provide grants to the 5 percent of the U.S. that is now not shared by public broadcasting programming?

Answer: NTIA has received coverage data from a study prepared by the Corporation for Public Broadcasting but no analysis has been performed concerning the costs of extending service to the unserved areas. Last fall, NTIA was asked to conduct a study of public broadcasting coverage in the U.S., provide percentages for both population and territory covered, and make recommendations on service to rural areas. NTIA's study will include estimates of the costs of completing coverage, and the results will be provided to Congress when the analysis is complete.

It should be noted that the expense of extending public broadcasting coverage depends in part on local decisions. Some smaller communities may opt for a service which repeats the signal of another station, while others would support a full-service public station.

Question: GSA is increasing your space rental by $230,598 which represents a 22 percent increase.

Has the reasonableness of this 22 percent increase been discussed with GSA?

Answer: No, GSA deals with OMB and the Department of Commerce rather than directly with individual agencies.

Question: What is GSA's rationale for this large increase (Note: PTO's rent payments to GSA in FY 1989 were increased about 1 percent--see PTO-15)?

Answer: Two factors contribute to the large rent increase shown in NTIA's FY 1989 Congressional Budget. First, the largest factor contributing to NTIA's rent increase is the cost of the Annapolis facility which has increased by $100,000 from 1988 to 1989. GSA's enabling legislation requires that the rates approximate commercial charges for comparable space and services. Annapolis is a growing commercial area where the rents are escalating. This popularity is reflected in the FY 1989 rent estimate. (Note: The Annapolis lease is for 10 years, until 1996, at a fixed rate.)

Second, the budget reflects the best estimate for 1988 costs at the time the 1988 Congressional Budget was prepared (January 1987). In actuality, this amount understated the 1988 bill by approximately $70,000 -- this error was corrected by GSA and DOC later in the year but was too late to change the budget documents. In the FY 1989 Budget, NTIA was allowed an additional adjustment to cover this difference. After these two factors are removed from the increase, NTIA's comparable rent increase from FY 1988 to FY 1989 is approximately $60,000 -- an increase of roughly 5%, similar to other agencies within the Department.

Question: The budget request also proposes significant reductions in rental of ADP equipment (-18%), maintenance of equipment (-35%) and other services (-42%). Please provide some specifics regarding these major decreases, and how they will affect NTIA operations.

Answer: The majority of the reductions (all of rental of ADP equipment and maintenance of equipment and a portion of other services), are associated with the Spectrum Management, Analysis and Operations subactivity. These reductions can be attributed to cancellation of leases on obsolete equipment as well as purchasing new equipment rather than leasing where economically sound. At this time, we expect minimal, if any impacts on users.

The other services reduction of $138 thousand represents a 9 percent reduction in this category of spending and, therefore, is not a major decrease.

In an effort to avoid major programmatic impacts, NTIA will work to increase cooperation within the international telecommunications community and employ carryover funds where possible.

MINORITY TRENDS IN RADIO AND TELEVISION OWNERSHIP AND MANAGEMENT
(Estimates)

Minority-Owned And Controlled Broadcast Station Totals

	Black			Hispanic			Native American			Asian American			
Year	TV Stations	Radio Stations	Total Owners*	TV Stations	Radio Stations	Total Owners*	TV Stations	Radio Stations	Total Owners*	TV Stations	Radio Stations	Total Owners*	Owner Total*
1986	21	150	119	8	44	43	3	13	16	6	2	3	181
1985	19	127	104	6	37	33	2	5	7	5	2	3	147
1984	9	135	93	5	39	34	0	5	4	0	2	1	132
1983	11	134	96	5	40	35	0	5	4	0	2	1	134
1982	12	126	89	5	46	51	0	3	2	0	2	1	143

Minority Broadcast Management
(Officials and Managers)

Year	TV	Radio	TV	Radio	TV	Radio	TV	Radio	Grand Total
1987	590	1012	137	121	57	147	519	739	3322
1986	571	1031	125	109	59	133	469	733	3230
1985	552	975	105	123	65	157	407	653	3037
1984	512	895	95	112	51	139	377	623	2804
1983	484	893	95	103	43	129	337	582	2666
1982	460	887	84	105	49	131	321	427	2464
1981	436	830	82	90	54	143	332	588	2555
1980	393	703	74	84	42	159	309	503	2267
1979	370	613	71	65	40	136	264	441	2000
1978	361	624	66	57	44	125	262	396	1935
1976	288	503	45	42	23	100	213	321	1535

Note: 1977 Management Totals (Unavailable)

* Includes the total number of individuals who own the respective stations.

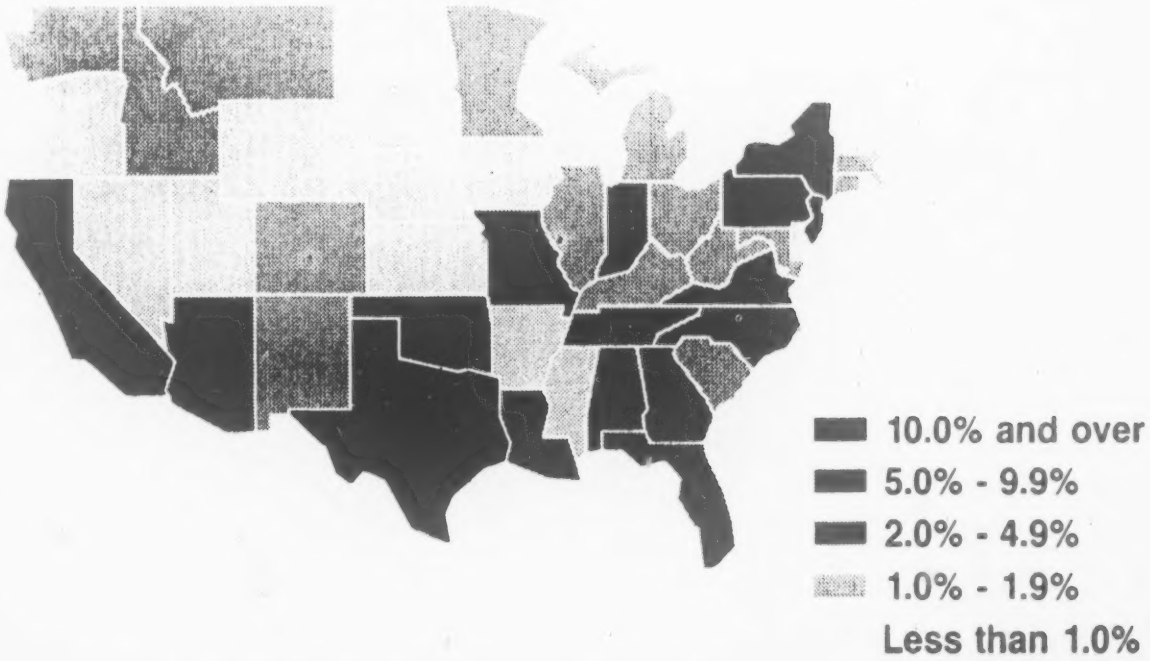
Statistical Sources:

Broadcasting Facts - Prepared by: National Association of Broadcasters
Equal Employment Trend Report - Prepared by: Federal Communications Commission Industry EEO Unit

Distribution of Population Without Public Radio Service

State by State

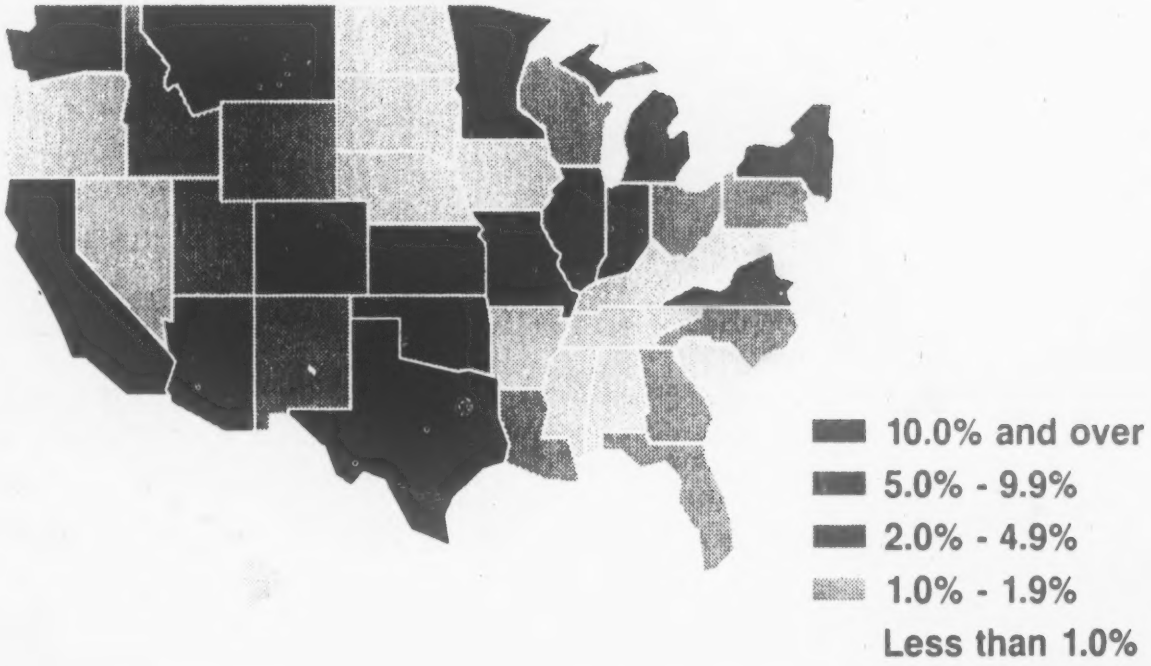
Summer 1986



Distribution of Population Without Public Television Service

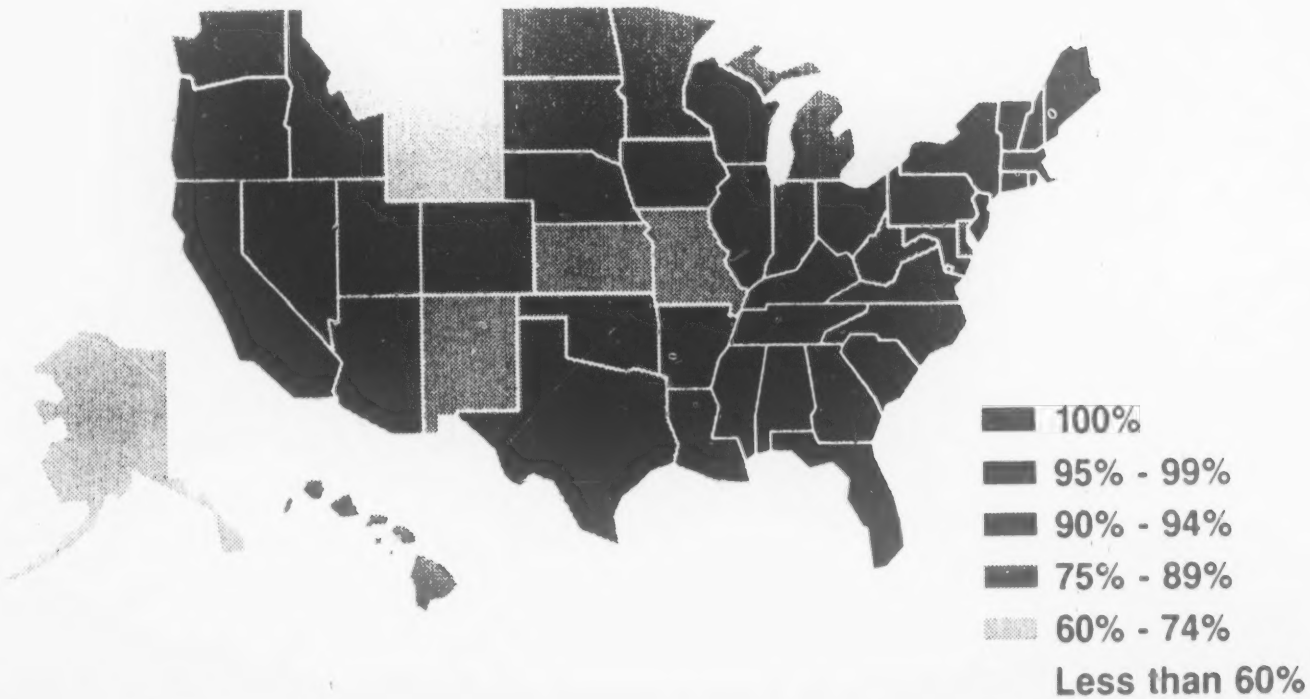
State by State

Summer 1986



Public Television Signal Coverage

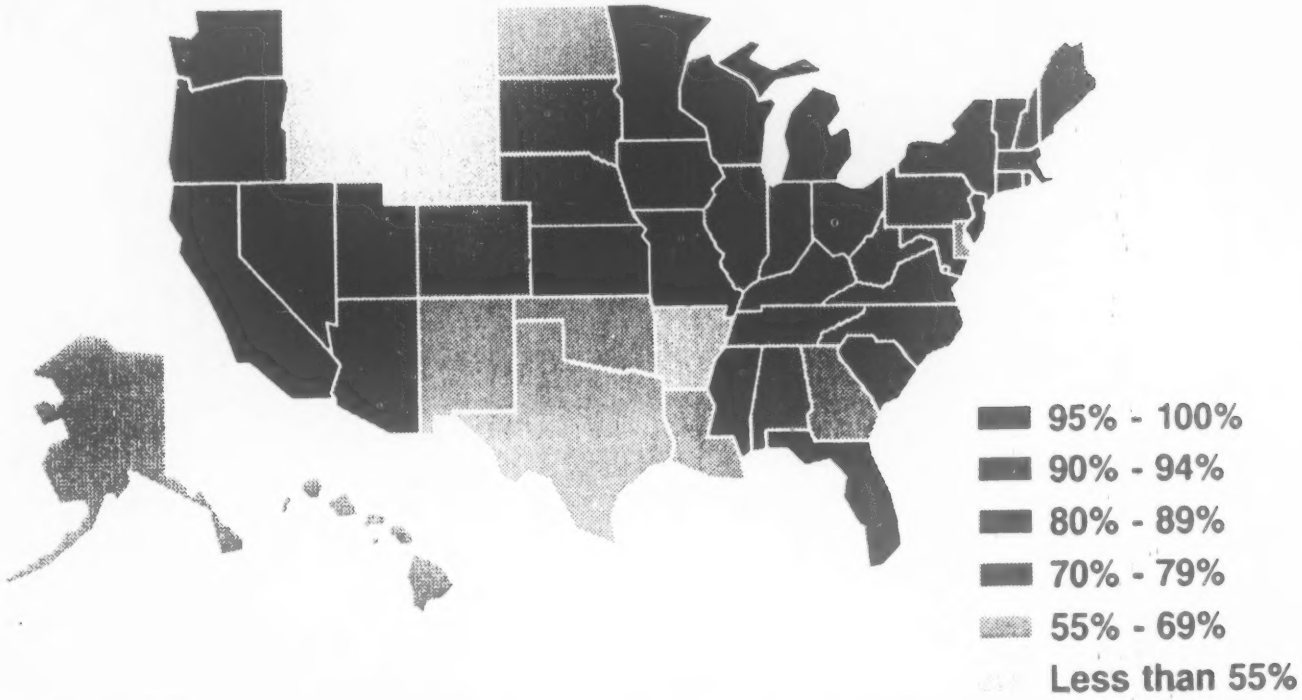
Percentage of the Population State by State



*Summer 1986

Public Radio Signal Coverage

Percentage of the Population State by State



*Summer 1986

QUESTIONS SUBMITTED BY SENATOR INOUYE

BUREAU OF THE CENSUS

FOREIGN TRADE STATISTICS

Question: Both the Administration and the Congress need reliable information in order to develop effective policy. This is especially true for trade and foreign investment statistics.

Please summarize your Department's programs for collecting this information.

Answer: The Foreign Trade Division of the Bureau of the Census conducts the basic foreign trade statistics program. The goal of the program is to provide current United States statistics on imports and exports of all types of merchandise and commodities primarily by mode of transportation and country of origin or destination.

Import Statistics. This program provides monthly statistics from copies of official documents filed with the U.S. Customs Service. Import statistics on shipments valued over $1,000 are compiled except for certain legally-defined commodities valued over $250 which must be reported on formal entries. Data for shipments valued under $1,001 (under $251, where applicable) are also developed under this program. The basic monthly and cumulative year-to-date statistics summarize merchandise imports in terms of the commodity classifications of the Tariff Schedules of the United States Annotated (TSUSA), by country of origin, and by Customs district of entry. Additional reports show and interrelate aggregate data covering major commodities and groupings in terms of the Standard International Trade Classification (SITC), Standard Industrial Classification (SIC), end-use codes, and coverage by geographic or political areas. Data on the movement of imports by vessel and air separately provide trade information in terms of value and shipping weight. These data show U.S. port of unloading, foreign port of loading, commodity country of origin, type of vessel service, and flag of vessel. In addition, the program compiles the import statistics on monthly and annual bases in terms of both the Customs valuation and the c.i.f. valuation (i.e., valuation including the cost of merchandise, based on Customs value, and insurance and freight) with separate data on aggregate freight and insurance incurred in transporting the merchandise to the United States. The import statistics include government as well as non-government imports of merchandise into the United States, the Commonwealth of Puerto Rico, and the Virgin Islands, including foreign trade zones. The data includes imports of merchandise for immediate consumption, withdrawal from Customs-bonded warehouses for consumption, and entries into Customs-bonded warehouses.

Export statistics. This program provides monthly export statistics from U.S. Customs Service documents. These documents are filed for all shipments individually valued at or over $1,500 for all countries. The Census Bureau estimates data for shipments valued under $1,501 for individual countries. The basic monthly and cumulative year-to-date statistics summarize merchandise exports in terms of the commodity classifications of Schedule B, by country of destination and by U.S. Customs district of exportation. Additional reports show and interrelate aggregates covering major commodities and groupings in terms of the Standard International Trade Classification (SITC), Standard Industrial Classification (SIC), and end-use codes, and coverage by geographic or political areas.

The program produces a series of monthly and annual summary reports, reference tabulations and publications covering U.S. exports of domestic and foreign merchandise. The reports show quantity (where applicable), value, and shipping weight (where applicable) of exports in detailed classifications. Information includes various reports on commodity, country of destination, and U.S. Customs district. Other reports present data in terms of broad groupings of commodities, countries, and U.S. Customs districts. Data items include movement of exports by vessel and air with information on value and shipping weight, U.S. port of loading, foreign port of unloading, commodity, country of destination, type of vessel service, and flag of vessel.

Trade Monitoring. This program covers the Census Bureau responsibilities under the Trade Act of 1974, particularly Section 608 (Uniform Statistical Data on Imports, Exports, and Production), Title V (Generalized System of Preferences), and Section 282 (Trade Monitoring System). Section 608 provides for data on imports, exports, and domestic production on a comparable basis. The commodity classification systems are revised on a regular basis, modified to reflect changing statistical needs and to improve comparability of trade and domestic production data as well as the comparison of trade data between the United States and other countries.

Question: What funds, and how many employees, has the Department committed to the compilation of these statistics over each of the past five years? How does this compare with your Department's budget request for FY 1989?

Answer:

BUREAU OF THE CENSUS
FOREIGN TRADE STATISTICS SUB-ACTIVITY
OBLIGATIONS AND FTE'S
(Dollar Amounts in Thousands)

Fiscal year	Obligations	FTE
1984.....	$13,307	503
1985.....	13,911	512
1986.....	13,888	499
1987.....	15,488	529
1988 (estimate).....	15,886	548
1989 (FY 1989 President's Budget).....	16,981	528

The above program levels remain essentially the same. The increase represents adjustments to base.

Question: In your judgment, is the amount proposed in the President's budget for your Department adequate to cover our nation's information needs?

Answer: Yes, our goal for foreign trade statistics is to improve the quality, reliability, usability and perception. The FY 1989 President's Budget will allow us to continue to work towards this goal.

Question: What legislation might you recommend to improve the compilation and dissemination of trade/foreign investment statistics?

Answer: There are two provisions of the Omnibus Trade Bill related to the Census Bureau that the Administration supports. These provisions directly effect the quality and reliability of the foreign trade statistics program. First, the provision to implement the Harmonized System-based import and export classification systems is vitally important to us for numerous reasons, including comparability of commodity statistics among the implementing nations, and greater comparability of statistics between exports and imports. Second, the Omnibus Trade Bill will do away with the "48 hour" rule that requires us to publish Customs value import data 48 hours after c.i.f. (cost, insurance, and freight) data. Removing the rule will allow us to publish import data based on Customs value, a more comparable basis with export data based on f.a.s. (free alongside ship) at the same time as we release c.i.f. data.

QUESTION SUBMITTED BY SENATOR BUMPERS

NTIA STUDY ON PUBLIC BROADCASTING

Question: Preface: In the report accompanying the FY 1988 appropriations bill for the Department of Commerce, language (attached) was included on page 26 of the report, for which, frankly, I am primarily responsible, which directed the National Telecommunications and Information Administration to study the extent to which public radio and television signals respectively, reach our nation's households. We want this information because it is important for us in determining the continued usefulness of the public telecommunications facilities program, which provides grants to public broadcasting stations, both radio and television. Yet no one--PBS or the Federal Government--can tell us how many households receive either public television or radio. The committee has not yet received the report.

How is the NTIA study progressing and when will it be complete? Can you assure me that this report will be available to the Committee in time for the mark-up of the FY 1989 Bill?

Answer: Since NTIA received the Congressional directive for an analysis of public broadcasting coverage, NTIA has developed a program plan identifying the major accomplishments and milestones necessary to successfully complete this project. Under this project plan, NTIA has:

--held discussions with industry representatives -- including the National Public Radio, National Association of Public Television Stations, the Public Broadcasting System, the Corporation for Public Broadcasting, and the National Cable Television Association -- concerning available information and the design of NTIA's study;

--reviewed what information is currently available (to eliminate any duplicative efforts);

--made arrangements with the Institute for Telecommunication Sciences to begin a detailed computer analysis of radio and TV broadcast coverage; and

--begun collecting data on rural telecommunications projects from the files of the Public Telecommunications Facilities Program, to address the issue raised of provision of services to rural areas.

87-717 0 - 88 - 10

NTIA's timetable for the study calls for its completion by the end of the Fiscal Year, in September 1988, although we will seek to finish the project earlier. In order to perform the computer analysis and to obtain the most accurate information available, we cannot ensure that the study will be completed in time for the mark up of the 1989 legislation.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

INTERNATIONAL TRADE ADMINISTRATION

Question: Canada recently announced the imposition of import restraints on U.S. ice cream exports.

These restraints are inconsistent with the spirit, if not the letter of the "standstill" commitments made in connection with the U.S.-Canada Free Trade Agreement (FTA) currently awaiting review by the Senate. In addition, these actions are contrary to the very purpose of the FTA and have already exerted a harmful effect on some U.S. businesses that are attempting to export goods to Canada.

What has been the United States' response to this action?

Answer: We have conveyed to the Canadian Government our view that we regard these actions as contrary to the political commitment of both sides not to take actions within their discretionary authority that would undermine the intent of the FTA. The Canadians have argued that we have long had in place tight restrictions on dairy products. We do not accept this as justification. We are pursuing bilateral discussions under the auspices of the General Agreement on Tariffs and Trade (GATT) on this matter.

Question: As you may know, I have been deeply involved in efforts to secure effective and adequate protection of U.S. intellectual property rights. According to the International Trade Commission, piracy and inadequate intellectual property protection results in losses to American business of roughly $24 billion. The piracy of American inventions abroad is especially troublesome for small companies, which often lack foreign offices and foreign in-house counsel to pursue litigation. While the USTR may occasionally allocate its resources to address cases involving an individual corporation, it appears that this generally involves America's largest corporations and rarely small business. In one case, involving a New Jersey small business, the only assistance it was able to secure from its government, in a case involving the piracy of its patent in Korea, was the offer to secure a list of qualified legal representatives from embassy commercial officers in Seoul.

Do you think American business abroad deserves more help from commercial officers in fighting piracy abroad? What steps is the Department taking to provide assistance to small American firms in fighting piracy of intellectual property rights?

Answer: The intellectual property rights (IPR) system of the United States is based on minimal government interference in the process of obtaining and enforcing those rights. Once rights are granted to an author or

inventor, the holders of those rights are responsible for detecting infringements and preventing unauthorized use of their work, i.e. by monitoring the use of their works and suing infringers. Commercial officers abroad can assist companies, large or small, with IPR complaints by directing them to the appropriate sources of information in their respective countries, be they customs officials, other appropriate enforcement authorities, or legal representatives. Further pursuit of the complaints would usually require the company to obtain qualified legal counsel in that country in order to bring the matter to court. This is precisely the same procedure that a firm, regardless of its size, would have to follow in the U.S..

It should be noted that the U.S. government is negotiating bilateral agreements with a number of countries to improve their legal regimes with respect to IPR protection, to the benefit of all American firms doing business in those countries.

QUESTIONS SUBMITTED BY SENATOR RUDMAN

BUREAU OF EXPORT ADMINISTRATION

EXPORT ADMINISTRATION RESOURCES

Question: At my request, in the 1988 Appropriations bill we created a new appropriations account for the Bureau of Export Administration. We worked closely with Commerce officials in the International Trade Administration and the Budget Office to make a fair transfer of resources from ITA to the new bureau so it could accomplish its job. However, there was a dispute about the level of resources that should be transferred from the Foreign Commercial Service to reflect their share of resources committed to Export Administration. Therefore, we included report language requesting a report to the Committee by March 1 on the additional resources to be transferred from the Foreign Commercial Service, with the expectation we could address this issue in the supplemental or in the 1989 Appropriations bill.

In March we received a letter from the Department saying the report would be delayed until April 1; however, we still haven't received it. What is the status of this report and what does it conclude?

Answer: In answer to your request for a report on the status of the ITA/BXA separation, I am pleased to inform you that outstanding issues related to field support for BXA have been resolved.

Congress approved an initial split of resources in the FY 1988 Appropriations Act to support BXA field activity. This included the resources associated with the overseas positions exclusively involved in BXA activities and the resources contained in the budget increase requested for export administration work.

As you know, BXA has opened a Western Regional Office in the Los Angeles area. The resources for that office have been made available from BXA's existing resources. Existing US&FCS personnel in other locations will continue to provide export control related services as they have in the past. The inherent economies of scale in this arrangement provide the most cost-effective means of support for export administration programs. We will monitor operations to ensure that these units work together, and to identify opportunities for improvement.

QUESTIONS SUBMITTED BY SENATOR LOWELL WEICKER, JR.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

Question: Mr. Secretary, I understand that the Department, on behalf of the National Oceanic and Atmospheric Administration, intends to submit a plan to Congress for reprogramming FY 88 funds sometime in the near future. I further understand that many programs in NOAA are currently having portions of their budgets withheld as if that reprogramming notice had been approved.

As you may know, the uncertainty surrounding whether or not this reprogramming notice will be submitted and approved, and what form it will finally take, is posing extreme difficulties for those programs whose budgets are being withheld. We are now more than seven months into the fiscal year, and over four months has passed since enactment of the Continuing Resolution, and yet Congress has still not had the opportunity to comment on a reprogramming action which could result in up to 20% total cuts in some programs from the Conference allowance.

Could you please comment on why it has taken so long for the Department to formally submit this plan to Congress?

Answer: We regret our delay in forwarding a reprogramming notification. A reprogramming notification was submitted to the Appropriations Committees on May 31, 1988.

Question: Does the Department truly intend to submit a reprogramming notice, or is this a de facto impoundment of funds for programs of which the Administration disapproves?

Answer: We do not intend to impound funds--a reprogramming notification was submitted on May 31, 1988.

Question: Would it be possible for you to provide the Committee with a date after which the Department will either submit a reprogramming notice or release the withheld funds?

Answer: The Department submitted a reprogramming notification on May 31, 1988.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF THE U.S. TRADE REPRESENTATIVE

STATEMENT OF AMBASSADOR CLAYTON YEUTTER, UNITED STATES TRADE REPRESENTATIVE

ACCOMPANIED BY MICHAEL DOYLE, ASSISTANT USTR FOR ADMINISTRATION

BUDGET REQUEST

Senator HOLLINGS. Now we will turn to the request of the Office of the U.S. Trade Representative. The 1989 request is $15,193,000 or $164,000 above the current level with a staff of 146 positions. Appearing on behalf of the request is Ambassador Clayton Yeutter, the U.S. Trade Representative accompanied by Mike Doyle, the Assistant USTR for Administration.

Senator HOLLINGS. Mr. Ambassador, your statement will be included in its entirety in the record, and you can deliver it in its entirety or highlight it as you wish.

Ambassador YEUTTER. Thank you, Mr. Chairman. I think it would be best if we did not take everyone's time with an articulation of the statement. It is nice to be with you, Mr. Chairman. As you know, we are moving toward the end of this administration, so I suspect this is the final time that I will be engaging in this exercise with you.

Senator Rudman, Senator Kasten, nice to see both of you, too. We have such a small budget, as you know, Mr. Chairman, that it is probably not worth a lot of your time in deliberation. The changes are so minimal that basically they are irrelevant.

As you indicated, for all practical purposes, the budget remains as it was in the last fiscal year. The same number of people are involved, 146 full-time positions. It is a small agency.

SECURITY SYSTEMS

The only significant item that differentiates this year from this coming last year is a $200,000 appropriation to finish off the security system that is involved in the Uruguay Round of negotiations in Geneva. We are trying to improve that system so that we can have secure communications between Geneva and Washington and tie the other agencies of government into USTR. We will have a system that ties the whole government together in that communication link. That is coming along very well.

Senator RUDMAN. Secure voice and data both?

Mr. DOYLE. Voice and data.

Ambassador YEUTTER. Yes. That is coming along very well. It will be

a major improvement over the existing system and one that has been necessary for a long time. Another $200,000 this year will finish off that project and it will be ready for the final negotiations of the Uruguay Round. As you know, Mr. Chairman, the Round is intended to be a 4-year exercise. We have completed about a year and one-half. We have about 2½ years to go. We will be in the final 2½ years of that exercise by the time the secure system is finished.

Without exception, Mr. Chairman, I can say the rest of the budget is really almost a pro forma exercise.

[The prepared statement of Ambassador Clayton Yeutter follows:]

TESTIMONY

OF

AMBASSADOR CLAYTON YEUTTER

U.S. Trade Representative

Mr. Chairman, I am pleased to appear before you this morning to present the Fiscal Year 1989 budget request for the Office of the United States Trade Representative (USTR).

The budget request we submitted for FY 1989 is straightforward and builds on the level of support provided in FY 1988. It asks for $15,393,000 and a staff level of 146 positions. The recurring portion of this request is $15,193,000 and 146 positions. The difference of $200,000 is for a one-time expenditure for computer and communications security. This will complete the computer/security upgrade initiative begun with $300,000 of non-recurring funds in FY 1988.

The FY 1989 request is $164,000 above the FY 1988 appropriation of $15,229,000 and reflects the same staffing level-- 146 positions. The recurring portion of the request-- $15,193,000-- is $36,000 below the FY 1988 appropriation.

FY 1989 Resource Needs

The resources we have requested will allow USTR to provide the leadership and effort necessary to making significant progress in these important areas of trade policy. Last year, the Congress provided substantial support for FY 1988. The appropriation was $157,000 above the President's amended request. It also included $300,000 that the Administration had requested on a one-time basis for the first phase of the agency upgrade of its computer capacity and related improvements in the protection of sensitive information.

Recurring Base

Our recurring request of $15,193,000 includes all but $36,000 of these resources-- or a total of $421,000 beyond the President's FY 1988 recurring request. That amount will allow us to cope with a variety of anticipated cost increases in FY 1989. These include: annualized costs of the FY 1988 pay raise; the estimated effects of the continued deterioration of the dollar vis-a-vis the Swiss Franc in FY 1988; modest inflation in certain cost categories; and projected operating costs resulting from the FY 1988 computer/security upgrade.

Of course, the most important part of USTR's base is its core staff. Steps underway to further strengthen our staff include completion in FY 1989 of an SES candidate development program begun in FY 1987; establishment of a competitively awarded fellowship for a career staff member to hone his/her negotiating and trade policy skills in a development assignment up to one-year long; and annual review of staff assignments aimed at taking full advantage of job rotation to broaden our multilateral, bilateral and sectoral trade policy skills.

We are requesting the same level of representation funds--$69,000-- as in FY 1988. We are also requesting continued no-year spending authority of $1,000,000 to manage out-year fluctuations in the dollar/Swiss Franc exchange rate.

Computer and Communications Security Upgrade

This request completes the initiative begun in FY 88 to provide solid protection for the production and communication of sensitive information which USTR deals with daily. It is important to complete in the early stages of the Uruguay Round. This project is based on the 1986 survey of USTR by the National Security Agency which contained specific recommendations to strengthen our level of information/communication protection.

The request is also consistent with our management strategy for the Uruguay Round. As we shared with the committee last year, the large number of new and complex issues requires Washington-based experts and negotiators to handle them in Geneva. Our staff in Geneva will be kept small. Last fall, we established a Trade Negotiations Center in our Geneva office. Located in the Botanic building, it already provides a range of support services to delegations from Washington who participate in Uruguay Round negotiations. It includes office and meeting space, secretarial support and limited computer and communications support.

Related FY 1988 accomplishments include the move of USTR's computer facility from leased space in a private office building to the basement of USTR's Winder building (completed in February); the acquisition of new minicomputers-- including a secure computer--for the first time (completed), and related peripheral equipment. The secure computer will service the entire trade community by allowing the review and clearance of interagency trade policy papers in a secure environment. It will be on-line early this summer.

In FY 1989, $200,000 will be required to complete the last phase of NSA recommendations which includes installing secure data communications from Geneva to Washington and providing a base of user-friendly secure voice units. Developments in meeting State Department regulations for secure processing and communications result in the following planned expenditures for Geneva. $51,250 is required to purchase communications equipment including 2 tempest multiplexors, 4 modems, 2 KG84's, cabling and installation. $58,000 is needed to significantly upgrade the physical security environment covering alarms, power filtering, KG84 safe and other enclosures in Geneva. $90,750 will fund the acquisition of two tempested personal computers, one for Washington and one for Geneva; 2 tempested facsimile transmission machines for Washington and Geneva; 5 Secure Voice Phone units (STU-IIIs) for Washington and 4 STU III's for Geneva.

Agency Management

Overall, the USTR is in good shape. This is due in no small measure to the steady support of this committee and its chairman. It is due also to the character and morale of the staff who work at USTR. We are a small agency. In my judgment, we need to remain small and lean to be most effective. This requires constant attention to carefully choosing among competing priorities. It also requires constant attention to getting effective support from all the agencies which make up the trade community. USTR has been fortunate in garnering that support. We expect to continue to do so in FY 1989.

Trade Policy Update

Given the interest of this committee and its chairman in trade policy, I had prepared an expansive briefing piece on the current status of outstanding bilateral and multilateral trade policy issues in front of the United States. It covers key areas including the Canadian Free Trade Agreement and progress in the Uruguay Round. I will be pleased to expand on any of those issues in the question and answer period. That document is attached as part of the testimony.

This completes my formal presentation, Mr. Chairman. I will be happy to respond to questions you may have.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

THE PRESIDENT'S TRADE POLICY: AN UPDATE

On September 23, 1985 President Reagan outlined a trade policy consisting of three parts: tough action against other nations' unfair trade practices, negotiations to liberalize world trade, and international economic policy reforms that would help both U.S. exporters and import-sensitive industries.

The President's policy has achieved major progress on all fronts. Here is a summary of its achievements.

I. FIGHTING UNFAIR TRADE

SECTION 301

Since September 7, 1985, the United States has challenged unfair trade practices 24 times by expediting, initiating or threatening to initiate investigations under section 301 of the Trade Act of 1974. In 15 cases this has resulted in an end to the dispute; investigations are continuing on four other cases, President Reagan has ordered sanctions on two cases, and three cases are pending before the GATT.

EC Enlargement

The European Community (EC) agreed on January 30, 1987 to provide full compensation to the U.S. for higher corn and sorghum tariffs imposed in Spain following that country's accession to the EC. The $400 million compensation package includes guaranteed imports of 2 million metric tons of corn and 300,000 metric tons of sorghum by Spain. Another 400,000 metric tons of grain may be sold in Portugal as a result of elimination of a requirement reserving 15 percent of the Portuguese grain market for sales from other EC member countries. The EC will also lower tariffs on 26 other products to provide additional market access and extend all current EC tariff bindings to Spain and Portugal. These actions were taken after President Reagan had announced retaliatory measures under section 301, which were suspended when the dispute was settled.

-- As part of the same section 301 case, the President on May 16, 1986 proclaimed quotas on certain EC products to mirror the effect of EC quotas on vegetable oils in Portugal. So long as these EC quotas do not hurt our trade, the U.S. quotas will be maintained at non-restrictive levels.

Japan Tobacco

Japan and the U.S. settled a self-initiated section 301 case on October 6, 1986 when Japan agreed to open its cigarette market to U.S. cigarette exporters by suspending its 20 percent tariff on cigarette imports, by ending the discriminatory practice of allowing deferred payment of excise taxes by the Japanese monopoly and by eliminating distribution and price approval problems. U.S. cigarette exports to Japan increased to $422 million in the first ten months of 1987, compared to $100 million during the same period of 1986. Eventually these exports could reach $2 billion. This settled a self-initiated section 301 case.

Taiwan Beer, Wine and Tobacco

Taiwan agreed to open its beer, wine and cigarette markets to American exports on December 5, 1986 after President Reagan instructed Ambassador Yeutter to propose retaliatory action under section 301. The value of U.S. cigarette exports alone increased to $98 million in the first ten months of 1987, up from just $2.6 million during the same period of 1986.

Japan Semiconductors

Japan agreed on July 31, 1986 (with formal documents exchanged on September 2) to open its market to sales of U.S. semiconductors, which should increase semiconductor exports by $5 billion in five years. Japan also agreed to prevent Japanese companies from "dumping" computer chips below cost in the U.S. and third country markets. This resolved an industry-initiated section 301 case and two antidumping cases.

-- President Reagan imposed sanctions on $300 million worth of Japanese exports to the U.S. on April 17, 1987 for Japan's failure to implement the agreement fully. These sanctions were partially lifted on June 8, 1987 and November 10, 1987 after Japanese companies first reduced then eliminated their dumping in third country markets. Sanctions totalling $164 million remain in place because of the lack of progress in opening Japan's market to imported semiconductors.

Brazil Informatics

In response to another self-initiated section 301 case, the President announced on November 13, 1987 that he would impose sanctions on about $105 million of Brazil's exports to the U.S. because of unfair Brazilian policies regarding trade in computer software. The imposition of the sanctions has been postponed until Brazil drafts the implementing regulations for its new Software Law. The U.S. continues to monitor developments in other areas of the "informatics" law, including investment.

EC Citrus and Almonds

The EC agreed on August 10, 1986 to give U.S. citrus producers additional access to the European market, ending a dispute

since 1969 on the EC's special treatment for Mediterranean citrus imports. The U.S. and EC also agreed to reduce tariffs on other products, including European duties on almonds, which will give U.S. almond producers additional access to the European market. (These tariff changes are subject to Congressional approval; legislation for this purpose is still pending in Congress.) These agreements were reached after President Reagan retaliated against the EC's citrus preferences under section 301, raising EC pasta duties on November 1, 1985. (As part of the settlement, the U.S. rescinded the increases in pasta duties and the EC rescinded duties it had imposed on U.S. walnuts and lemons.)

EC Pasta

The U.S. and the EC settled a dispute over subsidized European pasta exports on August 5, 1987. Under the agreement, which went into effect on October 1, 1987, the EC will reduce its export subsidies on pasta -- initially by 27.5 percent. This is intended to result in the elimination of subsidies on half the pasta exported from the EC to the U.S.

Japan Leather and Leather Footwear

Japan agreed on December 21, 1985 to compensate the U.S. for GATT-illegal leather and leather footwear quotas by eliminating tariffs on 137 items, including paper, aramid fiber and five important aluminum products, and making permanent 242 earlier tariff reductions. Japan replaced its import quota scheme on leather with a tariff-rate quota, which would increase the size of the quota over a five-year period. In addition, the U.S. imposed higher duties on Japanese leather and leather footwear imports to the U.S. This settled two long-standing disputes on which the President set a three-month deadline for resolution, saying he would evoke his authority to retaliate if they were not settled by then.

Japan Aluminum

Following consultations on October 31, 1986, required as part of the leather agreement, Japan began to phase out its tariffs on aluminum imports, eliminating them completely by January 1988.

Korea Insurance

Korea agreed on July 21, 1986 to eliminate prohibitions against underwriting by foreign firms of life and non-life insurance, ensuring fair access for U.S. firms to Korea's $5 billion insurance market. In September 1987 the U.S. and Korea amended this agreement to ensure that U.S. insurance firms could operate in Korea through joint ventures.

Korea Intellectual Property

Korea agreed on July 21, 1986 to offer significantly greater protection to intellectual property, including patents, copyrights and trademarks, settling a self-initiated section 301 case. The U.S. and Korea are discussing enforcement of the copyright laws.

Korea Motion Pictures

A potential section 301 case was avoided when Korea agreed on December 23, 1985 to reduce its barriers on importing and distributing U.S. motion pictures, television programs, and video materials.

Chile Patent Protection

Following consultations between the U.S. and Chile on March 29-31, 1988 the Pharmaceutical Manufacturers' Association withdrew its petition for a Section 301 investigation into Chile's inadequate protection for patents. Chile agreed to adopt product patent protection for pharmaceuticals and fine chemicals, and to extend retroactive protection for "pipeline" products. The U.S. will continue to monitor the drafting of a new Chilean patent law.

Taiwan Customs Valuation

Taiwan agreed on August 11, 1986 to fulfill its commitment to use the transaction value, instead of an artificial duty paying schedule, to calculate customs duties. This action came after the President directed Ambassador Yeutter to propose retaliation under section 301.

EC Canned Fruit

The EC agreed on December 1, 1985 to phase out the processing element of subsidies for canned peaches, giving U.S. canned fruit exporters a chance to compete in the EC market. This settled a long-standing section 301 case on which the President had set a deadline for retaliation.

Argentine Soybeans

The U.S. suspended a section 301 investigation into Argentina's soybean export tax differential on May 14, 1987 based on Argentina's assurance that it planned to reduce the export tax and thus any differential. The differential was reduced from 15% to 8% in February 1988. Discussions will continue on further reductions.

Canada Fish

A GATT panel ruled on November 20, 1987 that Canadian prohibitions against the export of unprocessed herring and salmon violate the GATT. This case had been brought to GATT after the U.S. initiated a section 301 investigation on May 16, 1986. The U.S. and Canada are discussing the implementation of the panel report.

EC Meat Hormones

President Reagan imposed duties on $100 million worth of exports from the European Community to the U.S. on December 24, 1987 to ensure that the EC does not restrict imports of American meat from animals treated with growth hormones. Following the President's threat to retaliate under section 301, the EC postponed its ban on such meat for one year. As a result, the President suspended the U.S. sanctions.

EC Meat Inspection Rules

On July 22, 1987 Ambassador Yeutter initiated a section 301 investigation of EC standards for U.S. slaughter and processing plants that produce meat products that are exported to the EC.

Brazil Pharmaceuticals

On July 23, 1987 Ambassador Yeutter initiated a section 301 investigation of Brazil's lack of patent or process protection for pharmaceuticals.

India Almonds

On February 20, 1987 Ambassador Yeutter initiated a section 301 investigation of India's licensing practices and steep tariffs on imports of almonds. This dispute is being handled by GATT dispute settlem-- procedures.

EC Soybeans

On January 5, 1988 Ambassador Yeutter initiated a section 301 investigation of the European Community's oilseeds subsidy program, which is inconsistent with the EC's agreement to maintain a zero tariff rate and creates barriers to the importation of soybeans.

Korea Cigarettes

Ambassador Yeutter initiated a Section 301 investigation into discriminatory Korean trade practices limiting imports of American cigarettes on February 16, 1988.

Korea Beef

Ambassador Yeutter initiated a Section 301 investigation into discriminatory Korean trade practices limiting imports of American beef on March 28, 1988. The U.S. is seeking the formation of a GATT panel to settle the dispute.

OTHER TRADE REMEDIES

In addition to section 301, President Reagan has used other statutes to fight unfair trade and to deal with other trade problems facing U.S. business:

Canada Lumber

On December 30, 1986 the United States and Canada settled a long-standing dispute over Canada's lumber pricing practices. Canada agreed to implement a 15 percent export tax on lumber, thereby neutralizing the effect of its lumber subsidies. On December 16, 1987 the U.S. and Canada further agreed on changes in British Columbia's lumber pricing practices that eliminate the subsidies.

Japan Construction Projects

The U.S. and Japan agreed on March 29, 1988 to procedures that will permit American companies to bid for the first time on major Japanese construction projects. This will give U.S. firms an important foothold in Japan, which has announced a large-scale public works program.

-- On December 30, 1987 Ambassador Yeutter had determined that Japan discriminates against U.S. firms in procurement for public works projects. As a result, U.S. contractors cannot participate in certain U.S. projects that receive Federal funding.

Japan Agricultural Quotas

On July 15, 1986, the U.S. asked for a GATT investigation of illegal Japanese import quotas in 12 agricultural categories, including fruit juices and processed beef. The GATT found 10 of the 12 quotas illegal on February 2, 1988, with the other two quotas found to be too small. The U.S. is seeking expeditious removal of these quotas or fair compensation for quotas that are not lifted.

Taiwan Investment Restrictions

Taiwan agreed on September 12, 1986 to eliminate export performance requirements in the automotive sector. This occurred after the President instructed Ambassador Yeutter to initiate an investigation under section 307 against trade related investment restrictions by Taiwan, which had imposed export requirements on a Japanese auto plant investment there.

Brazil General Aviation Aircraft

Following several years of consultations, Brazil agreed in late 1985 to reduce import restrictions on general aviation aircraft by lowering tariffs from 50 to 20 percent, granting import licenses for aircraft under 7,000 kilograms within 30 days and making licensing procedures more transparent.

Japan Soda Ash

On November 25, 1987, at the urging of the U.S., Japan's Fair Trade Commission ordered Japanese soda ash producing companies not to engage in any conduct that might impede fair competition. This should help U.S. soda ash producers, who are the most competitive in the world, to increase their share of the Japanese market.

Japan Beef and Citrus

On April 8, 1988 the U.S. asked GATT to form a dispute settlement panel to review Japanese quotas and other restrictive practices on importing beef and citrus. If a solution to this dispute is not found by early May, the U.S. will renew its request for the formation of a dispute settlement panel at the May 8 meeting of the GATT Council.

Japan Fish

On March 20, 1987, Japan and the United States settled a GATT case involving Japanese quotas on herring and pollock products, which could eventually increase American sales of these products to Japan by some $300 million annually.

Japan Rice

Ambassador Yeutter announced a strategy for dealing with Japanese restrictions on rice imports on October 23, 1986. Under this strategy, the U.S. will ask Japan to honor commitments made in Punta del Este, Uruguay to roll back GATT-illegal trade measures and to negotiate on all agricultural issues during the Uruguay Round negotiations.

China Tungsten

The U.S. and China signed a four-year orderly marketing arrangement on September 28, 1987 regulating trade in tungsten. This action was taken under section 406, which permits the President to provide relief when an industry is damaged by imports from a communist country.

Airbus

The GATT Aircraft Committee has held discussions on a U.S. request to clarify the meaning of provisions in the Aircraft Code. In addition, Ambassador Yeutter has met three times with representatives of the Airbus partner governments (most recently on March 18, 1988) to discuss European subsidies for Airbus aviation programs.

Preshipment Inspection

Ambassador Yeutter announced actions on October 20, 1986 that will address impediments to American exports caused by requirements of some countries that U.S. shipments be inspected by private companies before export. At the request of USTR, the International Trade Commission completed a study on the effects of preshipment inspection practices on August 5, 1987. USTR is reviewing the report and will discuss the report with industry representatives.

Shakes and Shingles .

On May 22, 1986, the President granted import relief to the red cedar shakes and shingles industry under section 201 in the form of a declining tariff program.

II. NEGOTIATING TRADE AGREEMENTS

President Reagan is negotiating improved multilateral trading rules as well as bilateral agreements to open overseas markets for U.S. exporters and to shield import-sensitive industries from disruptive import surges.

MULTILATERAL NEGOTIATIONS

Uruguay Round

On September 20, 1986, in Punta del Este, Uruguay, trade ministers from 74 nations in the General Agreement on Tariffs and Trade (GATT) launched comprehensive multilateral trade negotiations under the GATT. The talks will strengthen the international trading system so that U.S. manufacturing, services and agricultural industries can better compete in international markets. The U.S. will seek a strengthening of GATT rules and dispute settlement procedures, as well as new rules covering trade in services, trade-related investment, intellectual property protection and dispute settlement.

-- The Uruguay Round negotiating structure was established in January 1987, consisting of individual negotiating groups for 15 subjects. Chairmen have been selected for these groups and the initial series of group meetings began in February 1987. The second stage of negotiations began on January 25, 1988.

-- For trade in agriculture, President Reagan announced America's proposal for Uruguay Round negotiations on July 6, 1987. The U.S. proposal, which calls for a total phase-out of all policies that distort trade in agriculture by the year 2000, is the most ambitious proposal for world agricultural reform ever offered.

-- The U.S. tabled a framework proposal on intellectual property protection on October 28, 1987. The U.S. proposal addresses trade problems related to the counterfeiting and piracy of patents, copyrights and trademarks.

-- The U.S. tabled a proposal for trade in services on November 4, 1987. The U.S. proposal would establish the first set multilateral rules for trade in services, the largest sector of the U.S. economy.

Multifiber Arrangement

Textile exporting and importing nations agreed to a stronger and more comprehensive extension of the Multifiber Arrangement (MFA) on August 1, 1986. The new MFA extends product coverage to essentially all fibers and makes it easier to prevent import surges.

Harmonized System

On June 19, 1987 the Administration submitted to Congress legislation to replace the tariff schedule of the U.S. with a system based on international nomenclature. U.S. exporters will benefit from the efficiency that results when this new Harmonized System is implemented. The system will also provide a uniform yardstick with which to measure trade flows.

Government Procurement Code

GATT's Committee on Government Procurement completed the first phase of renegotiating the Government Procurement Code on November 21, 1986, strengthening the Code to bring the procurement practices of other signatories more into line with U.S. practices.

BILATERAL NEGOTIATIONS

Canada Free Trade Area

On January 2, 1988, President Reagan and Canadian Prime Minister Brian Mulroney signed an historic agreement to liberalize trade between our two nations. This agreement, when enacted by Congress and the Canadian Parliament, will strengthen both our economies and create jobs for American and Canadian workers.

-- All tariffs will be eliminated over 10 years, so that U.S. exports to Canada should increase by $2.6 billion per year. U.S. consumers will save $1.1 to $2.9 billion annually from the elimination of U.S. tariffs.

-- The U.S. will be assured secure access to Canada's energy resources -- invaluable if other foreign sources are jeopardized.

-- Binding rules will be established for $25 billion in trade in services, the first international services agreement of its kind.

-- Canada will phase out its duty remission programs for auto parts; which will remove an incentive for U.S. and Canadian motor vehicle manufacturers to use parts from third countries.

Mexico Framework Agreement

The United States and Mexico signed a framework agreement on November 6, 1987 that will improve trading relations between our two countries. The agreement provides for consultations on trade in textiles, steel, investment, technology transfer, intellectual property, electronics and services to determine if improvement to trade can be made in any of these sectors. The agreement also calls for prompt consultations in the event of a trade dispute.

Mexico Beer, Wine, and Distilled Spirits

Ambassador Yeutter announced on December 30, 1987 that Mexico has eliminated or significantly reduced its barriers to imports of beer, wine, distilled spirits, certain agricultural seeds and various other products. Under this agreement, Mexico eliminated its $1 million global quota on beer imports and its $43 million global quota on wine and certain distilled spirits. It also eliminated its import licensing requirements for a number of products.

Mexico GATT

On August 24, 1986 Mexico acceded to the GATT following the negotiation with the U.S. of terms of accession that will guarantee greater access to the Mexican market for U.S. exporters.

Soviet Grain

Negotiations for renewing the long-term agriculture agreement between the U.S. and U.S.S.R. were held in Washington on March 19, 1988. The current agreement, which provides for annual Soviet purchases of nine million metric tons of wheat, corn, soybeans and soybean meal, expires on September 30, 1988.

Japan Supercomputers

On August 7, 1987 Ambassador Yeutter announced that Japan will implement regulations to make it easier for American supercomputer companies to bid for contracts awarded by the Japanese government. This should make it easier to sell supercomputers to the government of Japan. The related issue of pricing practices by Japanese supercomputer companies remains unresolved; consultations will continue on this issue.

Japan MOSS

Important progress was achieved in 1985 in the Market-Oriented Sector-Selective (MOSS) talks with Japan to open markets for U.S. products. A number of market-opening measures are to be implemented while talks will continue to open markets even further. These areas include telecommunications, medical equipment and pharmaceuticals, electronics, forest products and auto parts.

Japan NTT Agreement

On December 23, 1986 Japan agreed to a three-year renewal of the bilateral agreement on procurement of telecommunications equipment by the Nippon Telegraph and Telephone Company. Under this agreement, the government of Japan must provide nondiscriminatory treatment for U.S. products in procurement, enhancing the ability of U.S. suppliers to compete in a market that formerly was closed to foreign suppliers.

Japan Computer Parts

The U.S. and Japan agreed on November 22, 1985 to eliminate all tariffs on trade in computer parts and Japan agreed in addition to eliminate tariffs on computer peripherals and central processing units.

Japan Lawyers

On April 11, 1986, the U.S. and Japan announced an agreement permitting American lawyers to enter the legal services

market in Japan for the first time. Japanese market-opening measures went into effect on April 1, 1987.

Machine Tools -- Japan and Taiwan

On December 16, 1986 President Reagan announced that Japan and Taiwan had voluntarily agreed to restrain machine tool exports to the United States for five years. He also approved a domestic action plan that will facilitate the industry's revitalization. Since that time, 73 companies have agreed to participate in the National Center for Manufacturing Sciences. This program, which will last five years, was undertaken for national security purposes.

Korean Tariff Reductions

The Korean government announced on April 6, 1987 that it will reduce tariffs on 83 industrial and agricultural products by July 1, 1987, including paper products, computers, and beer.

Singapore Copyright

President Reagan established bilateral copyright relations between the U.S. and Singapore on May 19, 1987 after Singapore implemented a law providing additional protection for American authors, artists and software producers.

Taiwan Pears

Taiwan agreed to liberalize restrictions on imports of pears as of September 15, 1986.

Colombia Wine

Following representations by Ambassador Yeutter to the President of Colombia, that nation removed U.S. wines from its list of prohibited imports.

BITs

Since March 25, 1986, President Reagan has sent to the Senate for ratification 10 bilateral investment treaties (BITs) liberalizing investment policies between the U.S. and developing nations.

European Space Agency Meetings

The U.S. and the European Space Agency have held three meetings since July 1987 to discuss the feasibility of establishing rules in the area of commercial space launch services.

STEEL AGREEMENTS

Voluntary Restraint Arrangements (VRAs)

The U.S. has negotiated 20 voluntary restraint arrangements on steel products covering 19 countries and the European Community (Spain and Portugal have separate agreements.) The most recent VRA, with Trinidad and Tobago, was signed in September, 1987. These agreements, expiring on September 30, 1989, are designed to combat foreign unfair trade practices such as subsidies, dumping, and quotas.

-- As a result of the VRA program, imports now take approximately 22 percent of the U.S. market, a significant

decrease from the 1984 share (approximately 27 percent), when the President's steel program began.

Non-VRA Countries

Imports from some countries with which the U.S. has not concluded VRAs have surged in recent years. Among these countries are Taiwan, Canada and Turkey. Imports from these countries have declined recently. In late 1986 Taiwan instituted a unilateral restraint program on exports to the U.S. The U.S. and Canada recently agreed to a consultative mechanism in which consultations will be called when exports from Canada in a specific product group exceed historical levels. Further, export tonnages from Turkey are no longer on an increasing trend.

Specialty Steel

The U.S. concluded orderly marketing agreements on specialty steel with Japan, Canada, Poland, Spain, Sweden and Korea and unilaterally imposed quota allocations for Mexico and Taiwan on October 26, 1987. These agreements and allocations, which cover stainless steel bar, wire rod and alloy tool steel, will be in effect through September 30, 1989, when the President's steel program expires.

Mexico

The U.S. and Mexico formalized an agreement on steel on December 30, 1987 under which the U.S. granted Mexico a one-time increase for 1988 in the steel quota and added a new quota category covering wire mesh and wire fence panels. At the same time, Mexico reduced its tariffs and steel products from 38 to 20 percent and eliminated import licensing requirements for steel.

TEXTILE AGREEMENTS

Hong Kong

The U.S. and Hong Kong reached a comprehensive agreement on textile and apparel imports on June 30, 1986, limiting growth of Hong Kong textile and apparel imports to an average of one percent per year through 1991. This agreement also extended coverage to virtually all fibers, including ramie, silk blends and linen.

Taiwan

On July 14, 1986 the U.S. and Taiwan reached a comprehensive agreement on textiles and apparel similar to the agreement reached with Hong Kong. Under this agreement, Taiwan's exports will grow by about one-half of one percent from 1985 through 1988. In addition, Taiwan agreed to reduce tariffs on more than 300 textile and apparel items by as much as 50 percent, providing additional market access for U.S. manufacturers. On April 23, 1987 the U.S. and Taiwan extended this agreement for another year so that it will now end on December 31, 1989.

Korea

On August 4, 1986 the U.S. and Korea reached a comprehensive agreement on textiles and apparel that will limit import growth to an average of 0.8 percent annually through 1989. In addition, Korea has agreed to phase out its import licensing system over three years, providing additional market access for U.S. manufacturers.

Japan

The U.S. and Japan reached a comprehensive agreement on textiles and apparel on November 13, 1986 that will limit import growth to an average of 0.8 percent annually through 1989. In addition, Japan agreed to establish a mechanism to prevent transshipments of textiles from third countries through Japan.

China

The U.S. and China reached a four-year agreement on textiles and apparel on December 19, 1987 that will limit imports to an average annual growth rate of 3.3 percent. Since China is the largest U.S. supplier of textiles and apparel, this agreement is a significant step in controlling import surges.

Mexico

The U.S. and Mexico reached a four-year agreement on textiles and apparel on December 31, 1987 that will permit an average annual growth rate of six percent on Mexico's textile and apparel quotas. In return, Mexico permitted additional access to its market for U.S. textile suppliers.

New MFA Fiber Products

The U.S. has used new authority under the Multifiber Arrangement (MFA) to establish quotas on such products as ramie, linen and silk-blends. In addition to the Hong Kong, Korea and Taiwan agreements, imports of these new MFA fiber products have been restrained from Malaysia, Romania, Mauritius, Burma, India, Pakistan, the Philippines, Sri Lanka, Indonesia, Jamaica, China and Macau.

GENERALIZED SYSTEM OF PREFERENCES (GSP)

GSP Graduation

On January 29, 1988, President Reagan announced he would "graduate" four economies -- Hong Kong, Korea, Singapore and Taiwan -- from the GSP program next year. This action was taken after the administration examined a broad range of economic criteria, including per-capita GNP, growth rates, and ability to export. This examination demonstrated that these four economies are sufficiently developed that they no longer need duty-free treatment to export to the U.S. The President's decision, which will affect about $10 billion in trade, will become effective on January 2, 1989.

GSP General Review

On January 2, 1987 Ambassador Yeutter announced that President Reagan will reduce the level of duty-free GSP benefits available to advanced developing countries by an estimated $2 billion, or 23 percent. This decision concluded a two-year general review of the GSP program which encouraged improved protection of intellectual property rights and the elimination of foreign trade barriers to U.S. goods, services, and investment. The President also decided to terminate or suspend from the program Paraguay, Nicaragua and Romania for their failure to improve their worker rights practices. On December 24, 1987, the President suspended Chile from the program because of worker rights abuses.

GSP Ethanol

On April 1, 1986, the President determined that certain

ethanol mixtures were being imported in circumvention of U.S. law and would no longer be eligible for duty-free treatment under the Generalized System of Preferences (GSP).

III. IMPROVING THE INTERNATIONAL ECONOMY

President Reagan has sought an unprecedented level of coordination of international economic policies among the leading developed countries to provide a more reasonable relationship between the dollar and other currencies to assist U.S. exporters and import-sensitive industries.

Plaza Agreement

Secretary Baker and representatives of four other industrialized nations agreed on September 22, 1985 to embark on a major effort to coordinate economic policies. The result has been a major realignment of currency exchange rates, which will begin to alter our trade imbalance soon and which has already made U.S. products and services far more competitive.

Tokyo Summit

The President achieved agreement at the Tokyo Economic Summit on May 6, 1986 on a package of reforms that should improve the international monetary system and provide a more stable international economic environment.

Venice Summit

The seven major industrialized nations agreed on June 10, 1987 to continue pursuing improvements in the international economic system. President Reagan also achieved a consensus to seek reforms of the world trade system in the Uruguay Round negotiations.

Deficit Reductions

Since the third quarter of 1986, the real trade deficit, as measured in non-inflated dollars has declined 20 percent. This means that the trade deficit, in volume terms, has dropped five straight quarters.

April 22, 1988

Senator HOLLINGS. In that Uruguay Round, the International Textile and Clothing Bureau is lobbying hard to do away with the multifiber arrangement. What is the position of our government?

Ambassador YEUTTER. That will obviously be a contentious issue as we near the end of the Uruguay Round. It has had very limited discussion thus far, principally because we have kept that discussion from occurring. That has been, I think, a strategic decision on our part, because with the change of administration coming along in 1989, we believe this is a decision that needs to be made by the next administration and not by this one.

Senator HOLLINGS. Do you support the multifiber arrangement?

Ambassador YEUTTER. I do. At the same time, of course, I do not wish to tie the hands of the incoming administration as to what it does——

Senator HOLLINGS. We are going to tie it.

[Laughter.]

Ambassador YEUTTER.—into 1992.

Senator HOLLINGS. Don't worry about that. Right, Warren?

[Laughter.]

Senator RUDMAN. Absolutely.

Ambassador YEUTTER. That is right. Just so we don't get too carried away there, Mr. Chairman, let me add that everyone agrees that the MFA is a derogation from the basic GATT rules. At some point in time in the future, we should phase the textile/apparel operation into the traditional GATT rules.

Senator HOLLINGS. You know, we always get that GATT, but that only covers 7 percent, and that there, really, is almost like a symbol for progress without progress. We constantly hear about GATT, GATT, GATT, when we are really getting down to the Multi Fiber Arrangement as bilateral between 34 countries. They agree and we agree. That is all the GATT is. Make that number 35. We know, under GATT, that we can't get results.

That was a little ambitious observation that we would tie us, because that is our real frustration that we haven't been able to tie it to what happens. As candidate Reagan, and later President Reagan reaffirmed in October of 1982 to Senator Thurmond that we would tie the level of imports to the increase in domestic consumption. Under that guideline, we would go from $4.2 million up to $5.7 billion. In 1985, when we passed the textile bill, it had gone, instead of $5.7 up to $18 million. I haven't been able to tie you, I am trying to tie you and tie everybody else and tie them just to the agreement.

It sort of leveled off, because it has been less than a 1 percent consumption. Instead now, of that trade deficit, we are up $25 billion as of last year. We are going out of business. Once you go over that 50 percent in the quest to invest in the upgraded machinery and modernization and everything else of that kind, you are putting good money after bad. You are on the down trend. As the shoe people found, they have gone. Eighty-four percent of the shoes in this room are imported.

So that is the kind of thing we in the Congress with your particular office would like to see administered more severely rather than moving away from that type of thing. What we are trying to do is not get it under GATT. We have got a bill to put it under GATT. It has passed over to the House. I don't know if we will ever get to it before the August recess, or at least I hope before the election of a textile bill, because it will be under GATT.

ANTI-FRAUD CLAUSES

Specifically, because these other gentlemen have questions on Canada, I was going into the anti-fraud clauses. We don't we have anti-fraud clauses? We don't we enforce them? Not with Canada, now, just generally speaking. The European Economic Community, like you say, under GATT, includes strong anti-fraud clauses in their bilateral textile agreement.

We, in contrast, instead of cutting the quotas of shippers who engage in fraudulent trade, we don't. There are two minor exceptions we have tried to injure in Pakistan and the development we had with the Philippines. But other than there, Mr. Ambassador, why don't we include those anti-fraud clauses?

Ambassador YEUTTER. I am looking for my textile pros. Ron?

Mr. SORINI. The MFA now gives us the right to charge the appropriate quotas to the fraudulent shipment.

Senator HOLLINGS. Why don't we put the clauses in those agreements?

Mr. SORINI. They are.

Senator HOLLINGS. They aren't enforcing them. They aren't cutting them. When we get fraudulent shipments from Thailand and everything like that. We don't cut back.

Mr. SORINI. Every time our Customs Service has been able to determine that there has been fraud and we have been able to determine the appropriate country of origin, we have, in fact, charged the appropriate quotas.

CANADA FREE TRADE AGREEMENT

Senator HOLLINGS. We will get the record on that. The main thing is on Canada now. They have got a 21 percent duty, and now they are going to revise the plan, as I understand it, and do away with that, and the Canadian Free Trade Agreement will be coming up. Would you, representing a textile State, vote for it?

Ambassador YEUTTER. Yes.

Senator HOLLINGS. Why?

Ambassador YEUTTER. Because there is no doubt, Mr. Chairman, the U. S.-Canada agreement is just a tremendous thing for the country. If you wish to make the evaluation on a State-by-State basis, obviously, you have to look at whether you believe that State would come out with a net plus or a net minus in the exports, and I don't have, for South Carolina, the evaluation in front of me.

Senator HOLLINGS. I am saying two-thirds of the fabric that comes in from Canada has 21 percent subsidy. When they do away with that, then are subsidized to that amount, then it is not Canada. I love them. Then they go to, "We know this crowd. They will transship everything in. " In fact, the Soviets now are making hand tools. I have to struggle not only for textiles but hand tools but everything else coming down the pike; like steel, and for textiles, too.

I have a hard time trying to keep up, but if they are going to do that, they just transship everything and there is a minor difference, minor, 21 percent.

Ambassador YEUTTER. Yes. The transshipment issue, Mr. Chairman, should work out all right. The rules of origin that are built into the U.S.-Canada Free Trade agreement, which is the way to deal with transshipment, are a lot tighter than the rules of origin that exist today.

That was done deliberately. Our folks worked very, very, hard on that issue with a lot of cooperation and support from the Canadians, Mr. Chairman, because they don't want to see transshipment occur, either, whether it be from textiles or anything else.

The view of our folks is that we have the strongest rule of origin in the U.S.-Canada agreement of any that has ever been initiated.

Senator HOLLINGS. In the garment industry, transshipment is the wrong word. Actually, they are shipping in cloth for 21 percent less then producing items that are a finished garment. It is 21 percent cotton. Instead of free trade, I have all of a sudden taken what apparel industry I have got, which is, and you ought to come over here. We have wonderful debates of how we are going to employ minorities and women.

The largest employer of women and the largest employer of minorities is the textile and apparel industry. Let me yield to you.

CONSTRUCTION IN JAPAN

Senator RUDMAN. Thank you, Mr. Chairman. I don't have any questions, Mr. Ambassador. On the Japanese construction issue, no doubt in my mind, the only reason they negotiated with you was because we put a provision in the C.R. There is an interesting lesson in that. Senator Murkowski has recently said that he thinks there is already a sign of slippage there. We are concerned about that.

What is the situation? Is he right? Is there some slippage? Are we starting to see some little obstructionist problems? It reminds me of the INF; we think we have a treaty, and then we find maybe we don't.

Ambassador YEUTTER. It is not unusual, Senator Rudman, for Japan to attempt to renegotiate agreements after they have been negotiated. We have other trading partners who do the same thing so that this is not simply a characteristic of our Japanese friends.

But the issue to which Senator Murkowski has referred, of course, is whether radar equipment will be covered in that agreement. Both Secretary Verity and I had a meeting with Ambassador Matsunaga just yesterday on this issue, and we believe we have it clarified.

Senator RUDMAN. I hope so, because Ambassador Matsunaga is going to get a big surprise one of these days. you know, I believe in reciprocity. I believe you can put a coalition together here on this Hill that would really make your head spin. Take the beef issue and the citrus issue. We will just add up what that takes. That comes to how many billion dollars that we think there is potential there right now?

Ambassador YEUTTER. A little over $1 billion a year, probably, or $2 billion.

Senator RUDMAN. About $1 billion a year. So we will just take that $1 billion, and we will find some Japanese product that amounts to $1 billion, and we will put an amendment through here like "that" and we will send it down to the White House on a piece of must-sign legislation.

If that is the only way the Japanese are going to get the message, they are going to get it. We don't have citrus or beef in New Hampshire, but I am sick and tired of seeing small politically powerful Japanese groups in their Parliament being able to throttle this whole trade reciprocity issue we are faced with.

The way we are going to start dealing with them, and this is one of my projects for next year, is we are going to start taking some legislation, non-germane, on must-pass legislation, that has universal support, nobody can disagree with it, and we are going to say, "Fine, we are going to take this particular kind of semiconductor or maybe this class of copy machine or this class of tractor," and with all due respect to all the American distributors who are going to scream about it, we simply are going to bar that, not restrict it, not tax it, bar it until they do business on the other issue.

The only way to deal with them, as far as I am concerned, is with a baseball bat. There are people here in Congress like me who are not protectionist who are reaching the point we are willing to spend some time on it next year. They ought to get the message loud and clear, because the time for talk is fast going by.

Ambassador YEUTTER. We appreciate that support, Senator Rudman. In fact, if we could spend a minute on beef and citrus, we are rapidly heading to that result on beef and citrus. As you know, we have filed a GATT complaint against them, and assuming we prevail in the GATT case, and we believe that we will, then the Japanese will either owe us compensation or be subjected to retaliation, which provides the outcome that you have just outlined.

We believe that GATT decision will be down promptly. It has a precedent already set in the so-called GATT 12 case, which we won just a few months ago. There is no reason for a GATT panel to take a long time on the beef and citrus issue. They should come to the same conclusion as the prior panel did on the GATT 12 case, in which case, the Japanese will either owe us compensation or we will be entitled officially to begin retaliatory proceedings.

I, however, suspect that the last negotiating chapter has not yet been written in that case and that we will more than likely have additional

discussions with representatives of the government of Japan before the GATT panel decision is provided.

Senator RUDMAN. I am delighted to hear that. I think you ought to advise them, based on what you are hearing here this morning and hearing other places, that, frankly, a lot of people who generally happen to believe in free trade and generally are not protectionist are about losing patience with them, their tactics, their habit of simply saying, "Yes, we will work with you in signing agreements," then trying to renegotiate them, and frankly, people are getting tired of their wanting to see American industry destroyed while our good industries and good agricultural sectors are unable to export to them.

I think it is about time that maybe we will have a Hollings-Gramm-Rudman trade bill, and we will put something together. We will have the kind of appeal that we will make our colleagues an offer they can't refuse.

Senator HOLLINGS. "Protectionists for Free Trade Caucus".

[Laughter.]

Senator HOLLINGS. I am a protectionist for free trade.

Ambassador YEUTTER. I may sign up. There you go.

Senator HOLLINGS. Senator Kasten?

CHINA STATUS IN GATT

Senator KASTEN. Mr. Chairman, thank you. I have got a couple of different questions I would like to submit for the record, but just very briefly, it is my understanding that the People's Republic of China has applied and has been granted observer status in the GATT process.

That would be the first step toward a formal application, or if they apply. I understand that you have discussed possible GATT membership with the People's Republic of China.

Can you tell us where those discussions stand now, what problems and benefits do you see for us? My concern is the impact that this might have on the newly industrialized countries, specifically, the Republic of China in Taiwan and Korea.

How is this all coming together? My concern isn't so much where we are going with the People's Republic of China as what we might be doing to leave behind some of our closest and best allies, particularly the Republic of China.

Ambassador YEUTTER. Sure. First of all, the People's Republic of China has applied for GATT membership. The working parties are underway. Our GATT Affairs section has met with them already on a number of occasions. The Vice Premier of China was in Washington, D.C. just this week. We have had some general discussions on the subject while he has been here.

That process is moving along. It will be a lengthy process. It is not likely to be concluded for another couple of years, I suspect, although it is difficult to tell. It depends on how responsive the People's Republic of China is to all the questions that have been provided for them.

Clearly, we will not support membership of the People's Republic of China in GATT until and unless we are convinced that the terms of that accession are proper; in other words, now is the time to insist that the PRC abide by the same kinds of rules that the rest of the world applies in the GATT.

This becomes a particularly sensitive issue on things like antidumping and subsidy programs, where there is not total compatibility between the two systems. Clearly, the government of China must demonstrate a dramatic movement toward compatibility of its economic system to the economic system that we have here and in other countries of the western world.

All of that is under discussion. There are specific questions on a whole host of issues. I believe we have lodged 75 pages of questions with the representatives of the government of China here recently.

This will be a long negotiation. At the conclusion of this process, I suspect that the chances are really quite high that the People's Republic of China will become a member of the GATT. That, in my judgment, does not preclude GATT membership for Taiwan.

It raises complications in the political sphere.

U.S. POSITION ON ROC MEMBERSHIP

Senator KASTEN. The Republic of China has already indicated a desire to join GATT. I support that concept and that application. What is the U.S. position on the ROC membership?

Ambassador YEUTTER. Well, the position is that it would have to be very carefully analyzed and orchestrated, because of the sensitivities and the relationships involved. We sure do not believe that is an impossible task, but it is obviously one that has to be undertaken with great care.

It seems to me that it is very feasible for both the People's Republic of China and for Taiwan to ultimately achieve membership in the GATT. Obviously, that requires very, very careful handling.

Senator KASTEN. Good. But your position is that with careful handling, this is the direction that would be best for the world and for the United States to go in, and we ought to work together in order to have, if one joins, to have both parts of it, despite the fact that we have got some sensitive issues to deal with.

Ambassador YEUTTER. That would be my view, Senator Kasten. That is my personal view. We have not taken an official administration position on it, because the government of Taiwan has not applied for GATT membership. We don't deal in hypotheticals, but if and when the issue came up, my view is that it is a doable proposition if handled very carefully.

Senator HOLLINGS. I think Senator Kasten is really pointing up, or highlighting the sensitivity in this particular body, in the Congress. If you admitted the People's Republic and had not admitted, on application, Taiwan, then we would have a problem.

Senator KASTEN. As in the Asian Development Bank right now with the controversy over names. We just don't want to leave behind our

closest and best allies in the process of reaching out to a new group of people.

Ambassador YEUTTER. Yes. I concur.

Senator KASTEN. I thank you.

SUBMITTED QUESTIONS

Senator HOLLINGS. We thank you very much, Mr. Ambassador. We will leave the record open for some additional questions.

Ambassador YEUTTER. That will be just fine.

[The following questions were not asked at the hearing, but were submitted to the Office of the United States Trade Representative for response subsequent to the hearing.]

QUESTIONS SUBMITTED BY SENATOR HOLLINGS

DUTY REMISSION

Question. Shortly after President Reagan and Prime Minister Mulroney signed the U.S./Canadian Free Trade Agreement, the Canadian Government announced its intention to promulgate a duty remission program for its apparel industry. Since the Canadian industry imports about two-thirds of the fabric it uses and pays duties of about 21 percent, such a program would constitute a significant cost reduction for the industry.

The U.S. industry protested, charging the scheme was in violation of the intent of the FTA and that the remission was, in fact, a new government subsidy.

Subsequently, the Canadian Government revised the plan to limit the kind of fabric eligible for remission. The U.S. industry still objects on the same grounds: The program is a government subsidy and will make Canadian garments more competitive in the U.S. and U.S. garments less competitive in Canada.

a. Do you agree that this program constitutes a new government subsidy and violates (at least) the intent of the FTA?

b. You recently said "there is little merit to try to withdraw the program at this time". If you are unwilling to work for our industry, why should supporters of the industry vote for the FTA?

Answer. Originally, the Canadians were considering a duty remission scheme that would have foregone $200 million in duties annually. The program which was eventually announced covers $33 million in new programs and an extension of an existing program which covers $18 million.

The Canadian scheme is broken down into three parts:

(1) Duty Elimination on Certain Fabrics from all sources:

Canada's MFN duty will be eliminated on the following products:

- woven fabrics containing 35% or more by weight of silk;
- woven fabric containing 85% or more by weight of linen;
- cotton woven fabric made of combed yarn of counts finer than 100 decitex;
- fabric containing 20% or more by weight of metallized yarns;
- hand-woven tweed fabric.

These products are not generally made, or made in small quantities, in the United States.

(2) Duty Elimination on Certain Fabrics of U.S. Origin, Partial Remission and Reduction on Certain Fabrics from other sources:

Canada will eliminate the FTA duty on U.S. fabric on January 1, 1989 (instead of January 1, 1998) and a 50% cut in Canada's MFN tariff on the following products:

- o jacquard woven fabric; and
- o light weight woven fabric (principally crepe).

This duty reduction program is limited to two types of specialty fabrics. Our manufacturers will still have an advantage in the Canadian market since no duties will be assessed on U.S. fabrics, while duties would apply, although reduced by 50 percent, on fabric from other sources. The specific fabrics subject to Canadian action are not manufactured in large quantities in either the United States or the rest of the world.

Canada will also establish new duty remission programs for the following products:

- o denim imported from the U.S. for up to 20% of Canadian production (applies only to imports of U.S. denim);
- o greige fabric for up to 30% of producers' Canadian value added;
- o 3/4 length jackets made from synthetic and cotton and their fabric for up to 15% of domestic production; and
- o blouses for up to 20% of domestic blouse production and up to 10% of domestic production of coordinates.

The duty remission schemes for fabrics from sources other than the United States are objectionable. But again, the limited nature of the duty remissions, along with the new benefits given to U.S. industry, mitigates adverse effects on U.S. producers.

(3) Duty Elimination on Certain Fabrics and Yarns from the U.S. Only:

Canada will eliminate the FTA duty on U.S. fabrics on January 1, 1989 (instead of January 1, 1998, Canada's MFN tariff would remain the same) for the following specific products:

- o corduroy;
- o textured nylon yarn for hosiery;
- o cotton leno woven fabric;
- o cotton-wool blended fabric for shirts; and
- o U.S. printing of Canadian spandex for swim wear.

They will also reduce the FTA duty on U.S. denim down to U.S levels by January 1, 1993, with elimination on January 1, 1998.

The measures provide a benefit to U.S. companies which goes beyond what was originally negotiated in the FTA. U.S. producers of cotton denim, in particular, will benefit substantially from this program. For example, the Canadian tariff for U.S. produced cotton denim is being reduced from 17.5 percent to 3.5 percent. The U.S. share of the Canadian denim market declined from 1986 to 1987. The reduced tariff rates for U.S. denim should allow our industry to recapture lost market share and more. Also, a tariff on corduroy fabric from the U.S, which is currently subject to a 17-25 percent duty, will be eliminated.

The existing duty remission order on shirts, forgoing $18 million in tariff revenues was also extended.

The Canadian International Trade Tribunal has also been instructed to make recommendations by June 30, 1989, (1) on reducing Canadian textile tariffs to the levels found in other industrialized nations and (2) on accelerating FTA tariff cuts on textile and apparel products.

Obviously, the Administration is not pleased with the duty remission scheme and indicated that to the Canadian Government.

It should be kept in mind, however, that there are some benefits to the United States in this program beyond what was negotiated in the FTA. Due to the sensitivity of textiles, the U.S. phased out its duties over the maximum staging period. The Canadians followed and staged all their duties over 10 years. Under the announced program, Canadian tariffs on a number of products of interest to the U.S. will be eliminated immediately upon implementation of the Agreement.

201 CASE

Question. According to the GAO, chances of winning a section 201 case are about 35%. If you win at the ITC, your chances of getting market restrictions improve to 45%.

Is this a reflection of the Administration's enforcement of the existing trade laws?

A case in point is the footwear industry. When import relief was terminated in 1981, import penetration was 51%. Now import penetration stands at 83%. In hindsight, should the President have granted relief to the footwear industry in 1985?

Answer. The Administration has sought to use section 201 to promote adjustment by U.S. industries. To this end, the President has granted import relief in four of the six section 201 cases in which the ITC has found serious injury or a threat thereof -- motorcycles, specialty steel, carbon steel, and wood shakes and shingles. The President has denied section 201 relief in only two cases. In Copper, import quotas would have cost six times as many jobs in fabricating industries as would have been saved in the mining sector. In Footwear, the estimated consumer cost of import relief was $3 billion. The industry was not prepared to make the investments on a scale necessary to compete with low-priced foreign competitors. It had previously received very substantial import relief in the form of orderly marketing agreements, but this relief had failed to restore the industry's competitiveness. The imposition of tariffs or quotas would have exposed U.S. exports to compensation claims by foreign governments. As a result, the President concluded that another five years of import relief was not in the national economic interest. I believe that this decision was entirely justified.

TEXTILES

Question 1. Mr. Ambassador, with our domestic textile-apparel trade deficit at $25 billion last year -- and running 6% ahead of that record-setting pace thus far in

1988 -- and with the United States now having to absorb more apparel from the developing countries than all the other nations of the world combined -- how can you judge our U.S. textile import programs a success?

Answer 1. The effect of quotas, whether they are negotiated quotas or legislatively imposed quotas, is always to raise the value of the items shipped. Our domestic industry has always viewed volume as the best way in which to implement our textile and apparel quota program. Because our industry has historically complained about unfair pressure from "low-priced, subsidized imports", I would expect them to welcome a rise in the value of imports in order to enable them to compete better with foreign imports.

In fact, on a volume basis textile and apparel imports actually declined by six percent during the first quarter of 1988, compared to the first quarter of 1987. During calendar year 1987, imports only increased by a modest 1.8 percent, while U.S. textile exports increased 9 percent and U.S. apparel exports increased 31 percent. This is proof that the tough agreements we have negotiated over the past several years are having the desired effect of bringing down overall import growth.

Question 2. Beginning back in the early 1980s, the European Economic Community generally included strong "anti-fraud" clauses in its various bilateral textile agreements, enabling the Community to cut the quotas of shippers indulging in fraudulent trade. Our U.S. bilaterals, by contrast, don't include this kind of clause and we therefore don't deduct fraudulently-traded shipments from an offending country's quota. Such a clause strikes me as the essence of an open, reciprocal, honestly-administered trade regime. Why don't we have this?

Answer 2. We have the right under both the MFA and our bilateral textile agreements to demand cooperation from our trading partners on fraud. Paragraph 16 of the 1986 protocol of extension of the MFA enables countries to take action to deal with problems of circumvention. Paragraph 16 states, in part, "It was further agreed that the appropriate administrative action referred to in Article 8, paragraph 2, should in principle, where evidence is available regarding the country of true origin and the circumstances of circumvention, include adjustment of charges to existing quotas to reflect the country of true origin..." The United States has, in fact, utilized this provision to take action on the transshipment of products of Pakistani origin. As a matter of fact, the language in our bilateral agreement with the Philippines, was applauded by the domestic industry and developed after consultations with them.

GATT

Question. Mr. Ambassador, tell me why I should be optimistic about the current GATT Round accomplishing anything significant for us in trade. Sometimes it seems we put all of our eggs into a basket called GATT, and when you try to start a

rational discussion around this place on trade, your opponents shout "GATT, GATT, GATT" and that's supposed to end the argument. Making GATT work seems to be the touchstone of this Administration's trade policy. Yet the fact of the matter is that GATT covers less than 7 percent of global commerce and financial flows--a pretty small amount. The fact is that over the past 40 years we have had more than half a dozen major GATT negotiations, and yet our trade position continues to plummet. The fact is that with some 94 members now, GATT is so unwieldy as to make consensus on anything significant just about impossible. GATT is an illusion--sometimes a very damaging one because it gives the appearance of progress when there is no progress. We don't need more illusions. We need tough trade policies negotiated perhaps multilaterally, but more likely in a bilateral fashion. Why, Mr. Ambassador, do we continue to put GATT front and center, while America goes down the economic drain?

Answer. To understand, and ultimately, to appreciate the importance of the General Agreement on Tariffs and Trade to U.S. economic and trade policy, it is useful to remember the forces that produced it. By general agreement, the economic nationalism, trade protectionism, and general balkanization of world markets within preferential trading spheres that characterized the 1920s and 1930s contributed to the start of World War II. Those whose duty it was at that time to attempt to avoid such catastrophes in the future proposed an integrated multilateral financial and trading system in which the participating countries would agree to cooperate within agreed rules to prevent the instability and "beggar-thy-neighbor" policies that had so impoverished and weakened the political order in the inter-war period. The system had to be flexible, to deal with changing situations, and it had to take into consideration the essential political sovereignty of its participants. The agreements and institutions that comprise this system, principally the GATT, the IMF, and the World Bank, have functioned well and must be considered to have greatly contributed to the relative peace and expanding prosperity of the post-World War II period.

The General Agreement is the first, and only, comprehensive set of rules governing global merchandise trade. Its 96 contracting parties account for well over 85 percent of world trade. Various estimates minimizing the amount of trade "covered by GATT rules" confuse the issues of coverage and whether or not the rules function as desired. The Administration has been the first to point out that GATT rules in several sectors, e.g., bulk agricultural products, need reform and strengthening. The very fact that the Uruguay Round is addressing trade in agriculture, textiles, and new areas such as services, investment, and intellectual property rights validates its globalization.

Yes, after 40 years, the GATT is an agreement in need of updating and basic repair. That is the agreed purpose of the Uruguay Round of Multilateral Trade Negotiations. World economic growth and development in the intervening years, no less than the significant changes in financial and trading methods and instruments, make it necessary to

expand the GATT to new areas and to strengthen those rules that have become unworkable or incapable of performing their intended role. A successful Uruguay Round will promote precisely the kind of international trading system in which the United States has always prospered--open, fair, and based on the economic competitiveness of its members. Such an outcome must not be viewed only with optimism, but for the sake of U.S. economic interests, with the conviction that we must all do whatever we can to see it happen.

Finally, the United States needs that GATT now, more than ever, as a forum for the execution of our trade policy objectives. The deterioration of U.S. international competitiveness relative to our major post-war trading partners has many causes, but none of them can be addressed by downgrading our role in an institution that is a major determinant of the international trading environment. GATT rules are an opportunity to encourage fair and economically efficient trading practices world wide. In addition, they form a useful framework for the ongoing expansion and development of international commercial relations, something that is still, 40 years later, absolutely essential for world prosperity and peace.

TRADE SURPLUS

Question. Ambassador Yeutter, you have said that "We will have a trade surplus in this country a few years from now". You say that the pendulum is going to swing from our huge trade deficit of $170 million way over to the other side and provide a trade surplus.

1. Over how many years do you see this great swing in the pendulum taking?

2. What is the basis for your rosy scenario?

Answer. I will first answer the second part of this question.

The basis for my saying we may have to run a trade surplus in a few years is the way the balance of payments operates. In balance-of-payments accounting, trade and current account deficits such as we now run are balanced by net inflows of foreign capital. U.S. current account deficits of recent years have been matched by corresponding net inflows of foreign capital.

Over time, the United States will have to move back toward a position of balance in its current account. It is neither desirable nor possible for us to run sustained large current account deficits. At some point, foreigner lenders/investors will be unwilling to continue to send capital to the United States to fund our current account deficits, forcing us, if we have not already done so, to cut our current account deficit.

Within the current account, the two main components are the merchandise trade balance and the balance on services and investment income. Historically, the United States has run small merchandise trade deficits which, in turn, have been offset by small surpluses on the services and investment

side. Until the 1980s, the current account balance, though it fluctuated, was on average in small surplus.

More recently, however, merchandise trade deficits have been far larger than the surpluses on services and investment income. As a result, we have had large current account deficits.

In order to eliminate our current account deficit, we will have to eliminate our merchandise trade deficit. In 1987, for example, the United States had a merchandise trade deficit of $159.2 billion on a current account basis, while the current account deficit was $160.7 billion. Had we had balanced merchandise trade, our current account would have been in deficit by only $1.5 billion.

We may have to run a merchandise trade surplus in the future because we are likely to have a deficit on services and investment income, unlike the surpluses we have had in the past.

One result of large U.S. current account deficits and the high net capital inflows has been a rise in the U.S. assets held by foreigners. These assets include such items as Treasury securities, and corporate stocks and bonds, as well as foreign direct investment in the United States. By the end of 1987, these foreign assets in the United States totalled about $1,530 billion. In contrast, the United States held foreign assets of about $1,130 billion.

As foreign assets in the United States have grown, we have had to pay an increasing amount in dividends and interest payments to foreigners holding these assets. The result has been a shrinking U.S. surplus on international investment income. In 1987, it was $14.5 billion, down from $20.8 billion in 1986 and $28.7 billion in 1982.

The decrease in the surplus is not due to lower U.S. receipts on investment overseas. Those have grown from $83.5 billion in 1982 to $99.8 billion in 1987. Over the same period, however, payments made to foreigners investing in the United States rose from $54.9 billion to $85.3 billion, cutting the surplus almost in half.

With foreign assets held in the United States likely to rise over the next several years, we could well see our surplus on investment income turn into a deficit as payments to foreigners begin to exceed income from investments overseas. Under current conditions, such a switch would put the services and investment income side of the current account into deficit.

If we run a deficit on services and investment income, that deficit will have to be offset by a merchandise trade surplus if we are to have a current account in balance.

As to when that might occur, I would not wish to say. Projections about our merchandise trade and current account balances are speculative at best. However, many analysts who look at the issue conclude that a full U.S. trade correction consistent with sustained economic growth in the U.S. and world economy will require a minimum of 4 to 5 years to achieve.

TRADE AND ECONOMIC POLICY

Question 1. The Commerce Department reported the February merchandise trade deficit at $13.8 billion. Imports were up 7.5% In response, the Dow Jones plunged 101.46 points, the dollar fell 2.3% against the yen, and prices of long-term Treasury bonds fell 1.5 points.

The Administration does not appear alarmed by the trade deficit and you have argued that higher import prices have masked a turnaround in the trade balance.

a. What evidence do you have for a turnaround in the trade balance?

b. Do you believe we can export our way out of the trade deficit?

c. Are you aware that the former Director of the Office of Trade and Investment Analysis at ITA admits we cannot?

d. What will the Administration do to slow growth of the trade deficit considering that monetary measures have not succeeded after three years?

Answer 1.

a. On a constant-dollar basis, the U.S. trade deficit peaked in the third quarter of 1986. Since then, U.S. exports in constant-dollar terms have risen 27 percent while U.S. imports have risen by only 7 percent. As a result, when measured in constant third quarter 1986 dollars the U.S. trade deficit fell by 23 percent between the third quarter of 1986 and the first quarter of 1988.

When revised data for the first quarter of 1988 are released by the Commerce Department, I expect the real correction over this period will have been even stronger. Trade data for March 1988 were not available when the Commerce Department's original estimates for first quarter constant-dollar trade were released. The March trade numbers turned out to be much stronger than anyone expected. Exports rose $5.4 billion from the previous month to an all-time monthly high of $29 billion. The trade deficit plunged to $9.7 billion, its lowest level since mid-1985. The result will be an even stronger real trade correction when revised first quarter GNP numbers are released.

Of course, much more remains to be done to eliminate our trade deficit. But, I would not underestimate the importance of the real correction we have seen to date for two reasons. First, the real correction and rapidly expanding exports are leading to strong growth in U.S. industrial production (up 5.7 percent in the last year) and manufacturing employment (up 400,000 in the last year).

Second, the history of all countries which have eliminated large trade deficits has been to experience initially a real

correction (reduced deficit in terms of trade volume) followed by a correction in nominal terms (reduction in the currency value of the trade deficit). The appreciation of foreign currencies vis-a-vis the dollar has made U.S. import prices rise. In nominal terms, imports therefore have grown much more rapidly than in real terms so that the nominal trade deficit rose even as the real deficit declined. Eventually, the volume correction will overwhelm the price effects of the exchange rate, and the nominal trade deficit will decline as well. The United States is no exception to this pattern. There is a widely-held expectation that the nominal trade deficit will at last begin to decline this year.

b. I believe strong export growth can and should play a major role in the U.S. trade correction. But, I would not ignore the import side of the equation. American producers have an outstanding opportunity to recapture U.S. markets from increasingly high priced imports. It is extremely important that U.S. producers take advantage of this opportunity not simply to raise prices and profit margins, but to recapture market share as well. The more successful our U.S. producers are at home, the more feasible it is that strong exports can do the remaining job of eliminating the trade deficit.

Public policy also has an important role in the next several years if U.S. import demand is to be limited and the outlook for exporting our way out of the trade deficit strengthened. Continued progress on reducing the federal budget deficit will be very important. Limiting the federal budget deficit should act to limit the growth rate of U.S. domestic demand, increase the rate of national saving and eliminate the trade deficit. Specifically, progress on the federal budget deficit should help dampen U.S. demand for imports while freeing up domestic resources for private sector investment in U.S. exporting industries.

c. I am aware of Dr. Lenz's thoughtful analysis of the U.S. trade correction. Characterizing his work as an admission, however, implies that there is a clear objective truth regarding the U.S. trade deficit correction about which all objective observers agree. In fact, speculating on the nature of the U.S. trade deficit correction is just that-- speculation. There is a great deal of variation in how even the most objective observers view the likely or possible details of our trade correction.

I would certainly agree that if the United States continues to experience unabated strong import growth, it would be very difficult for us to export our way out of the trade deficit. Reducing import growth enough so that the import share of our GNP stabilizes or eases down over several years makes it much more likely that the U.S. will export its way out of the trade deficit.

I believe this outcome can be achieved. In fact, many experts argue that there is some combination of feasible U.S. export growth and import restraint which can achieve both the elimination of the U.S. trade deficit over several years <u>and</u> sustained U.S. GNP growth. In my view, at the level of federal policy, steady reduction in the federal

budget deficit over the period is the most important action for achieving this desirable path of trade deficit correction.

d. I assume that by monetary measures, you are referring to the depreciation of the dollar since February 1985. I do not believe that the correction achieved in exchange rates has been failure. The real trade correction I described above has been achieved in large part through the exchange rate adjustment. The exchange rate adjustment has also been very important in reducing dramatically the rate of growth of the trade deficit even in nominal terms.

Our international agreements with our major trading partners have not, however, concentrated exclusively on exchange rates as the means to eliminating the trade deficit. These agreements have also included commitments for stronger growth of domestic demand abroad and reduction of the Federal budget deficit in the United States. In terms of foreign demand growth performance has been better in Japan than in the Germany. In terms of the United States, sustained reduction of the federal budget deficit can play a very important role in eliminating the U.S. trade deficit over several years.

Question 2. When President Reagan took office he pledged "to make trade a national priority...to ensure the long-term health of the country." Yet, America's trade imbalance has gone from -$34.7 billion in 1981 to -$171.2 billion in 1987. What does this say about President Reagan's "trade policy"?

Answer 2. The growth of the U.S. trade and current account deficits has taken place because of a fall off in the rate of U.S. gross national saving, not because of U.S. trade policy. Changes in U.S. trade policy, changes in foreign trade policy, highly desirable though they may be for other reasons, have little impact on the size of the U.S. aggregate trade deficit. The implication of this point is that, to the extent the Federal government affects the U.S. trade balance, it is areas other than trade policy that must be looked to in order to lower the trade deficit.

Under the impact of inordinately large Federal budget deficits in the last several years, total saving by the American economy as a share of GNP has fallen to post-War lows. Yet, favorable economic conditions have encouraged a sustained high level of domestic investment. The gap between what America has wanted to invest and been willing to save has been made up by foreign borrowing in the form of foreign capital inflows. It is a general characteristic of the balance of international payments that a country cannot borrow (net) heavily abroad without running corresponding deficits in its trade and current accounts.

As expert after expert have pointed out, the most effective action which can be taken by the Federal government to reduce and eliminate trade deficit is to achieve a steady and sustained reduction in the Federal budget deficit. I would add that a return to higher rates of saving by U.S. households would also have a beneficial effect on the rate of gross national saving and would help lower the trade deficit.

Trade policy helps us allocate our national resources to produce as efficiently as possible. A successful trade policy raises the average productivity and real wages of U.S. workers. A successful trade policy permits us to achieve a higher standard of living than we could otherwise achieve. These are very important goals for trade policy and ones which the Administration has served with great energy and success. But, not the most successful application imaginable of trade policy tools can be very effective in achieving massive shifts in trade balances. To achieve this in the present circumstances requires macroeconomic policy coordination with our major trade partners such as has taken place since the September 1985 Plaza agreements, and domestic efforts to lower the Federal budget deficit while boosting national saving.

Question 3. In your testimony before this Subcommittee over a year ago, you submitted a written update on the President's trade policy. That paper cited as a success the Administration's efforts regarding illegal Japanese quotas on citrus and beef. That agreement ended on March 31 and no new agreement has been reached. The U.S. will have to ask GATT to settle the dispute. We have been trying to negotiate a solution for over four years.

a. Will there be an effective solution to this problem anytime soon?

b. Why hasn't the U.S. retaliated since Japan blocked a GATT panel?

Answer 3. Japan maintains import restrictions on beef, fresh oranges, and orange juice which are inconsistent with its trade obligations under the GATT. I have held a number of meetings with Japanese Agriculture Minister Sato since late March to discuss Japan's proposals to eliminate these restrictions. To date we have been unable to reach a bilateral solution because Japan has proposed only to replace the quotas with other measures having an equivalent protective effect. I remain ready to hold further bilateral talks with the Japanese Government if they are prepared to make a proposal that will liberalize trade.

We are also proceeding expeditiously in the GATT. Japan did block our first request that a panel be formed to examine if Japan's policies are GATT-consistent. However at the May 4 GATT Council meeting it was agreed to establish a panel. We are now discussing the terms of reference for the panel and acceptable panelists. If the Japanese Government acts to stall these proceedings, I'm prepared to recommend that the President self-initiate a Section 301 investigation on beef. On May 25, I accepted the Florida citrus industry's petition for a Section 301 investigation on Japan's citrus policies.

I am committed to reaching a resolution of this matter, either bilaterally or through the GATT forum, before the end of this Administration.

Question 4. The 1987 National Trade Estimates Report which is produced in your office, shows little progress in eliminating unfair trade barriers that effectively prohibit

or limit American products in different nations around the world.

* The report cited more than 326 trade barriers that bar, impede, and in other ways limit or reduce American trade with other countries.
* The report indicated that 148 of these trade barriers could be costing American exporters as much as $16.7 billion annually.

Does this report reflect the Administration's failure to negotiate away trade barriers?

Answer 4. No. I believe however, that the report does demonstrate the prevalence of trade barriers throughout the world and the need for aggressive efforts both bilaterally and multilaterally to eliminate such barriers. In fact, through the aggressive use of our trade laws and extensive bilateral approaches, we have made a considerable amount of progress in reducing or eliminating barriers of concern to US producers and exporters and in opening markets to them. These successes are detailed in the President's trade policy update (See attachment Exhibit A).

I do not know your source for an alleged $16.7 billion figure since no such figure is referenced in the report. Such figures often consist of broad ranges, but I would certainly agree that foreign trade barriers are a major problem and fully warrant the high priority this Administration has accorded to them. I can assure you that we will continue our vigorous efforts to get rid of such barriers.

In fairness, I should point out that the United States itself also maintains a number of trade barriers of concern to foreign countries. Moreover, many of the barriers cited in the National Trade Estimates Report, while significant, are not necessarily inconsistent with international trading rules. Such barriers are, for the most part, more appropriately dealt with in the comprehensive multilateral Uruguay Round negotiations now underway. We have gotten off to an excellent start in these negotiations and have, I believe, set the stage for achieving a major liberalization of world trade as well as great improvements in the international rules governing trade.

(ATTACHMENT EXHIBIT A)

REPORT TO CONGRESS ON SECTION 301 DEVELOPMENTS
REQUIRED BY SECTION 306 OF THE TRADE ACT OF 1974
(July-December 1987)

I. Cases in Which the President Acted During This Period

A. Brazil Informatics (301-49)

At the President's direction, on September 16, 1986, the Trade Representative self-initiated an investigation of the Government of Brazil's informatics policy, designed to promote a national informatics (computer and other equipment based on digital technology) industry. Brazil's informatics law restricts foreign investment in this sector and imports of these products into Brazil. In addition, Brazil provides insufficient protection for related intellectual property rights, especially computer software.

On October 6, 1986, the President determined under Section 301 that Brazil's informatics policy is unreasonable and a burden or restriction on U.S. commerce. He directed the Trade Representative to continue negotiations, and deferred a final decision as to the appropriate U.S. response to Brazil until December 31 to allow time for such negotiations. In the interim, however, he directed the Trade Representative to notify the General Agreement on Tariffs and Trade (GATT) of the United States intent under GATT Article XVIII to suspend the application of U.S. tariff concessions to imports from Brazil (in order to compensate for the annual loss in U.S. sales opportunities in Brazil due to the informatics policy), and to implement such suspension when appropriate.

On November 28, 1986, the Trade Representative advised the GATT Secretariat and the delegation of Brazil of its intention to suspend the application of compensatory U.S. tariff concessions to Brazil, as instructed by the President.

On December 30, 1986, the President decided to: (1) suspend that part of the investigation dealing with Brazilian administrative procedures; and (2) direct the Trade Representative to conduct further negotiations with Brazil toward achieving adequate and effective protection for intellectual property rights, particularly for computer software, and the elimination of barriers to U.S. investment in the Brazilian informatics sector. In his determination, the President explained that the Government of Brazil has undertaken administrative reforms that, if fully implemented, should reduce the adverse effect on United States commerce of the Brazilian informatics policy. Brazil has established an ad hoc group to review specific company complaints regarding the application of the informatics law to U.S. trade and investment. It has announced certain other reforms designed to speed and simplify the process of obtaining necessary licenses and to create an appeals process. Finally, it has defined and narrowed the scope of its import restrictions (although they remain subject to periodic revision). The President concluded that these developments warranted suspending, but not terminating, that part of the investigation. He stated that if these improvements are properly implemented and have the expected effect of reducing the burden on U.S. commerce, then that part of the investigation could be terminated.

The President further determined, however, that to date insufficient progress has been made in negotiations with Brazil to eliminate restrictions on U.S. investment in the informatics sector and to obtain adequate protection of intellectual property rights. He concluded that a final negotiating effort was appro-

priate, and declared that he would determine the response of the United States to Brazil's informatics policy if no acceptable resolution were forthcoming within six months.

On February 10, 1987, USTR invited written comments and announced that it would hold public hearings on March 12 on Brazil's inadequate protection of intellectual property and its proposed commercialization legislation for computer software and investment restrictions in the informatics sector. Specifically, USTR requested comments concerning:

(1) Brazil's lack of adequate copyright protection for computer software, as well as Brazil's proposed copyright and commercialization legislation;

(2) barriers on U.S. investment in Brazil's informatics sector, including discriminatory incentives provided by the Government of Brazil and restrictions on: the formation of joint ventures, the upgrading and modernization of existing facilities, the products that can be manufactured and/or sold in Brazil from those facilities, and the treatment of royalties, trade secrets and technology transfer;

(3) the impact of these investment measures on the trade flows of the company, including from Brazilian operations to third markets, within Brazil, and between Brazil and the U.S.; and

(4) the extent to which Brazil's overall investment climate is affected by its informatics policies, and the treatment of U.S. investors compared to other foreign and domestic companies in Brazil.

At the public hearings held on March 12, comments were received in writing and/or orally from numerous witnesses.

On June 30, 1987, the President suspended the intellectual property portion of this investigation. He noted that the Government of Brazil's lower house had passed legislation that would provide adequate copyright protection to computer software. Although enactment of that legislation still required favorable action by the upper house, the President concluded that progress to that point and the likely enactment of legislation adequately protecting computer software from piracy warranted suspension of the intellectual property portion of the investigation. He asked the Trade Representative to continue to monitor developments in this area, with a view to terminating or reopening this part of the investigation as appropriate based on developments.

Regarding the Government of Brazil's restrictions on U.S. investment in the informatics sector, the President noted Brazil's request to judge its performance in this area based upon a favorable "track record" in approving U.S. investment proposals. He directed the Trade Representative to pursue this part of the Section 301 investigation as appropriate.

Regarding the suspended parts of the investigation concerning Brazil's administrative procedures and "market reserve" practices, the President noted that the Trade Representative will continue to monitor developments in these areas, with a view to terminating or reopening these parts of the investigation as appropriate based on developments.

On November 13, 1987, the President announced his intention to prohibit Brazilian exports to the U.S. having a value comparable to certain lost sales opportunities for U.S. companies in Brazil (estimated at about $105 million). He also announced his intention

to prohibit imports from Brazil of certain computer products. These actions were in response to the following Brazilian actions.

In September 1987, the Brazilian Secretariat for Informatics (SEI) rejected agreements negotiated between: (1) a U.S. company that holds the copyright on the world's leading computer software operating system for personal computers, and (2) six Brazilian informatics companies seeking a license to use that software system. SEI rejected those licensing agreements on the basis of a determination that a Brazilian-made "functional equivalent" to the operating system exists for use by Brazilian informatics companies. The SEI determination contravened understandings reached between the U.S. Government and the Government of Brazil that provided a basis for the President's June 30, 1987 decision to suspend the intellectual property portion of the investigation. Specifically, SEI's decision violated understandings that SEI's interpretation of "functionally equivalent" software would be objective. It established a precedent that effectively banned U.S. companies from the Brazilian software market. Except for mainframe and similar computers, U.S. companies are already prohibited from participating in the Brazilian hardware market.

On December 17 and 18, 1987, the interagency Section 301 Committee held public hearings on listed products being considered for increased duties or other import restrictions. Follow-through action is scheduled for early in 1988.

B. EC Pasta (301-25)

The National Pasta Association filed a petition under Section 301 on October 16, 1981, alleging that EC export subsidies on pasta products violate Article 9 of the Subsidies Code, which prohibits export subsidies on non-primary products. Although the Article 9 allegations were dispositive of the case, the petition also alleged that EC export subsidies threaten serious prejudice to U.S. pasta manufacturers contrary to Article 8 of the Subsidies Code, by displacing U.S. manufacturers in their home markets.

Under its Council Regulations on the Common Organization of the Market in Cereals (Council Regulation No. 2727/75), the EC provides that certain EC cereal products, after being transformed into processed goods, may be eligible for an export refund. The refund on the processed product is intended to cover the difference between quotations or prices of the cereals on the world market and prices in the Community.

We initiated an investigation on November 30, 1981, and requested consultations with the EC under the Subsidies Code on December 2, 1981. The time period for consultations in this case was 30 days. However, the EC did not even respond to our request until January 25, 1982--almost eight weeks after our request. In its response, the EC declined to hold formal consultations, and suggested instead that the Subsidies Code Committee be convened to discuss Article 9 of the Code. On March 3, 1982, the U.S. referred the matter to the Subsidies Code Committee for conciliation. When conciliation failed, we requested a panel on April 7. The panel met on July 14 and October 8, 1982, and March 29, 1983.

The Trade Representative submitted a recommendation to the President regarding the pasta petition on June 30, 1982. On July 21, 1982, the President directed USTR to complete the dispute settlement process expeditiously.

The panel submitted its report to the Subsidies Code Committee on May 19, 1983. The panel concluded (with one member dissenting) that the EC subsidies were inconsistent with the EC's obligations under Article 9 of the Code. The Subsidies Code Committee considered the report on June 9 and November 17, 1983, at which time the

U.S. urged its adoption. The Committee has not yet made a decision, because the EC and certain other European countries have blocked adoption of the report.

In the context of our dispute with the EC over its discriminatory citrus tariffs that deny fair access for U.S. citrus exports to the EC market (see a subsequent section of this report on the citrus case), on June 21, 1985, the President proclaimed that effective July 6, we would increase our tariffs on imports from the EC of pasta products not containing egg to 40 percent ad valorem, and on pasta products containing egg to 25 percent ad valorem. The EC indicated that it would counterretaliate through increased tariffs on imports of lemons and walnuts from the U.S.

Both sides agreed to rescind the tariff increases in response to the EC's offer to reduce its pasta subsidy and to increase access to its market for U.S. citrus exports by October 31. The increased U.S. duties on EC pasta imports were suspended through a Presidential proclamation of August 15, 1985, in which the President authorized the Trade Representative to suspend, modify, or terminate the increase in EC pasta duties if justified by actions taken by the EC toward a mutually acceptable resolution of the citrus dispute.

Because the EC did not increase such access as promised, on November 1, the Trade Representative imposed substantially higher duties on pasta products imported from the EC. The EC responded by increasing its tariffs on imports from the U.S. of lemons and walnuts.

In the context of a satisfactory settlement of the EC citrus case (described below) in August 1986, the United States and EC agreed on the elimination by the U.S. of the increased duties on EC pasta, and by the EC of retaliatory increased duties on U.S. lemons and walnuts. To fulfill this agreement and pursuant to authority delegated to him by the President in August 1985, effective August 21, 1986, the Trade Representative determined that the increased pasta duties were no longer justified and terminated them.

Also in the context of the citrus case, the U.S. and EC agreed to proceed in good faith to seek a prompt resolution of the pasta case.

On September 15, 1987, the U.S. and the EC settled this dispute through an agreement requiring the EC to reduce its subsidy for pasta exports to the U.S., initially by 27.5 percent. As a result of such reduction, it is intended that 50 percent of the exports of EC pasta to the U.S. will not be subsidized. The agreement provides for further reductions in the future of the level of export subsidies if this 50 percent level for unsubsidized EC exports to the U.S. has not been reached. Conversely, if the 50 percent level is exceeded, the EC would be permitted to increase proportionately the level of its export subsidy.

On September 30, the President proclaimed that the Customs Service shall exclude from entry into the U.S. any EC pasta unless accompanied by appropriate documentation determined by USTR to be necessary to enforce the agreement. The President determined to take such action under Section 301 to implement the September 15 agreement with the EC.

The agreement provides for periodic consultations on the operation of the agreement. The first consultation was held on December 9.

C. EC Hormone Directive (301-62)

On December 24, 1987, on his own motion, the President proclaimed (but suspended) increased duties on certain products of the EC, in response to the implementation scheduled for January 1, 1988,

of its Animal Hormone Directive. This directive bans the importation into EC member countries of any meat produced from animals treated with growth hormones. The U.S. exported about $100 million in red meat (mostly offal) products to the EC in 1986.

The U.S. maintains that valid scientific evidence does not justify such a ban, and that therefore it is a disguised restriction on international trade. We sought to pursue this dispute under the GATT Standards Code (formally called the Agreement on Technical Barriers to Trade). However, the EC blocked the formation of a technical experts group, a necessary predicate to the establishment of a panel to recommend a decision to the Standards Code Committee.

In response, we recommended that the President take action, on his own motion, under Section 301 in response to the EC ban. However, the EC approved a regulation requiring individual member states to continue their current import regimes for hormone-treated meat for 12 months. Based on these developments, the President suspended the increased duties he proclaimed, and delegated to the Trade Representative authority to modify, suspend or terminate the increased duties, including re-imposition of the currently suspended duties. These actions provide an opportunity to, and increase the likelihood that we can, reach a resolution with the EC in 1988, without adverse effects in the interim on U.S. meat exports to the EC.

II. Pending Cases in Which the Office of the U.S. Trade Representative Acted Further

A. EC Citrus (301-11)

On November 12, 1976, the Florida Citrus Commission filed a petition under Section 301 alleging that preferential import duties established by the EC for imports of orange and grapefruit juices from certain Mediterranean countries had an adverse effect upon U.S. citrus juice producers. The California-Arizona Citrus League, the Texas Citrus Mutual, and the Texas Citrus Exchange filed a petition on the same day, making similar allegations but covering a wider range of citrus products. With the agreement of all petitioners, on November 30, 1976, we initiated one investigation covering tariff preferences on fresh oranges, tangerines, lemons and grapefruit; grapefruit segments; pectin; and orange, lemon and grapefruit juice.

The U.S. industry had filed similar complaints in 1970 and 1972 under Section 252 of the Trade Expansion Act of 1962, the predecessor provision to Section 301. During the GATT Article XXIV:6 settlement in 1974 arising from the accession of Denmark, Ireland and the United Kingdom to the EC, the EC agreed to reduce the duty on oranges (except during the winter season) and to bind the grapefruit duty at four percent.

The U.S. sought further reductions in EC citrus duties during the Tokyo Round of the Multilateral Trade Negotiations. The EC then agreed to reduce the grapefruit duty to three percent. However, no agreement was reached on fresh oranges or orange juice.

We held a public hearing on January 25, 1977. We consulted numerous times with the EC until 1982. We began requesting establishment of a panel to examine our complaint in June, 1982, and after unsuccessful conciliation efforts in September, 1982, a panel was established. In a report on December 14, 1984, the panel found that U.S. exports of oranges and lemons had been adversely affected by the EC preferences and recommended that the EC reduce its tariff on these items.

The GATT Council considered the panel's findings and recommendation in March and April 1985, but the EC blocked any action.

On April 30, the U.S. declared that the GATT dispute resolution procedures had been exhausted and that pursuant to Section 301, the U.S. Trade Representative had 30 days in which to make a recommendation to the President as to what action, if any, he should take in response to the EC's refusal to adopt the panel's recommendation.

On May 10, 1985, we held a public hearing concerning the recommendation that the Trade Representative is required to make to the President under Section 304(a) of the Trade Act. On May 30 the Trade Representative made such a recommendation, and on June 20 the President determined that the EC practices denied benefits to the U.S. arising under the GATT, were unreasonable and discriminatory, and constituted a burden or restriction on U.S. commerce. On June 21, the President proclaimed that effective July 6, we would impose a 40 percent ad valorem duty on pasta products not containing egg, and a 25 percent ad valorem duty on pasta products containing egg.

These measures were not effected on July 6 because of agreement with the EC to pursue a negotiated settlement by October 31, 1985. However, no agreement was reached and we imposed the 40 and 25 percent duties effective November 1, 1985. The EC counter-retaliated by increasing duties on imports into the EC of U.S. lemons and walnuts.

Further consultations finally culminated in an agreement in August, 1986, under which the EC will reduce its tariffs on various citrus products, including products not covered in the original GATT dispute settlement panel report (i.e., minneolas), and products covered but for which the panel report was unfavorable (e.g., grapefruit and frozen concentrated orange juice). In addition, the EC agreed to a longstanding U.S. request to reduce EC tariffs on imports of nuts, particularly almonds, in return for which the U.S. agreed to increase the EC cheese quota by 1,925 tons and to reduce our tariffs on anchovies, satsuma oranges, capers, cider, paprika, olive oil and certain green olives. (The U.S. tariff reductions require legislative implementation.) Moreover, both governments agreed to eliminate their retaliatory duties, and to seek a resolution of the pasta dispute by July 1987.

Both the U.S. and EC retaliatory duties were eliminated on August 21, 1986. In February 1987, the EC implemented certain of the citrus concessions and the U.S. increased the EC cheese quota. Definitive implementation of the entire agreement--including reduced EC tariffs on almonds and peanuts and the U.S. tariff reductions on specified products--is dependent on passage of legislation by Congress. Both H.R. 3 as passed by the House of Representatives (section 118) and by the Senate (section 946) provide for the implementation of the remainder of the citrus agreement by authorizing the President to proclaim reduced U.S. tariffs on specified products. H.R. 3 remains pending in the House-Senate Conference.

B. Japan Semiconductors (301-48)

On June 14, 1985, the Semiconductor Industry Association filed a petition under Section 302 alleging that the Government of Japan had protected its home market and erected major barriers to the sale of foreign semiconductors in Japan. These alleged Japanese Government practices included:

-- restrictions on entry into the Japanese semiconductor industry by all but large and established Japanese electronic producers;

-- concentration of semiconductor subsidies and research and development aid to the largest electronic producers;

-- pressure on semiconductor consumers to "buy Japanese";

-- present effects from past formal restrictions on imports and foreign investment; and

-- tolerance of a market structure inconsistent with Japanese Government agreements to promote substantially equivalent opportunities to U.S. industry in Japan's semiconductor market.

The Semiconductor Industry Association alleged that the import restricting effect of Japan's market structure was in violation of its GATT agreements, inconsistent with commitments made when Japan adopted the 1983 Recommendations on High Technology, and an unreasonable burden on U.S. commerce.

The Trade Representative initiated an investigation on July 11, 1985. Throughout the summer and until Thanksgiving, the Office of the U.S. Trade Representative (USTR) had a series of consultations in which the two governments reviewed the allegations of unfair Japanese trade practices. Beginning in November 1985, we focused instead on the possible basis for a settlement agreement. We held technical discussions in January and February 1986, and consulted intensively from March through July 1986.

Those consultations and negotiations culminated in an agreement concluded ad referendum in July, under which the Japanese Government agreed: (1) to provide fair and equitable access to its domestic market for foreign semiconductor products; and (2) to help prevent the sale of Japanese semiconductors at less than their "fair value" (a term under the U.S. antidumping law), both in the United States and in third country markets. The agreement remains in effect until March 31, 1991.

On July 31, 1986, the President determined that this agreement was an appropriate and feasible response to the practices of the Government of Japan with respect to trade in semiconductors. He stressed that fulfillment of its objectives and commitments is critically important. Therefore, he specifically determined that any future failure by the Government of Japan to meet the commitments and objectives of the agreement would be inconsistent with a trade agreement or an unjustifiable act that would burden or restrict U.S. commerce. Therefore, he instructed the Trade Representative to report to him on: (1) the results of each of the periodic consultations held pursuant to the agreement; and (2) annual improvements in foreign semiconductor firms' (including, of course, American firms') access to the Japanese market. He also directed the Trade Representative and the Secretary of Commerce to take any further action appropriate to implement the agreement. Finally, he suspended the Section 301 proceeding on semiconductors as long as the objectives and commitments of the agreement are fulfilled.

The agreement was formally signed on September 2, 1986. The United States and Japan held the first consultations under the agreement in October, 1986, and almost every month thereafter through March 1987 due to difficulties over the Government of Japan's implementation of the agreement.

On March 31, 1987, USTR announced that the inter-agency Section 301 Committee would conduct a public hearing on April 13, 1987, on possible U.S. actions in response to the apparent failure by the Government of Japan to fulfill its obligations under the agreement. The Federal Register notice announcing these hearings listed products of Japan that were being considered for the possible imposition of or increase in import duties. At those

hearings, testimony was received in writing and/or orally from over 100 witnesses.

On April 17, 1987, the President determined that the Government of Japan had not implemented or enforced major provisions of the agreement; specifically, its commitments: (1) to increase market access opportunities in Japan for foreign-based semiconductor producers, and (2) to prevent sales at less than "fair value" through monitoring of costs and export prices of semiconductor products exported from Japan to third country markets. The President further determined that the appropriate response of the United States was to increase duties on certain imported articles produced by Japan, including certain color televisions, power hand tools and automatic data processing machines. In his proclamation implementing this determination under Section 301, the President authorized the Trade Representative to suspend, modify or terminate the increased duties upon publication in the Federal Register of his determination that such action is in the interest of the United States.

Pursuant to that delegated authority, on June 15, 1987, the Trade Representative suspended increased duties on imports of 20-inch color televisions from Japan because of Japan's improved conformity with its obligations under the agreement regarding "dumping." The Trade Representative stated that the access of foreign-based semiconductor companies to Japan's semiconductor market had not improved significantly and that Japanese EPROMs (erasable programmable read only memory semiconductor chips) apparently continued to be sold at unfairly low prices. But he declared that the prices of Japanese DRAMs (dynamic random access memory semiconductor chips) had increased. As a result of these price increases reducing (but not eliminating) the unfairly low pricing, he determined that it was in the interest of the United States to suspend partially the increased duties on certain products of Japan.

Effective November 10, 1987, the Trade Representative further suspended increased duties on imports of certain Japanese power hand tools, 18- and 19-inch color televisions, and low-performance 16-bit desk top computers. This action was based on the determination that Japan was fully in compliance with its obligations under the agreement with respect to preventing "dumping" of semiconductors. The Government of Japan has been monitoring costs and export prices of semiconductor products exported from Japan, and encouraging Japanese semiconductor producers to conform to antidumping principles. Moreover, the prices of EPROMs and DRAMs have increased; they are no longer being sold at unfairly low prices.

The other increased duties, imposed in response to the lack of adequate access to the Japanese market, remain in effect.

C. Korea Insurance (301-51)

At the President's direction, on September 16, 1985, the Trade Representative self-initiated an investigation into the Republic of Korea's policy of unfairly prohibiting or restricting operations in Korea of foreign insurance firms. Korea enforced restrictions that prevented U.S. firms from participating fully in Korea's compulsory fire insurance, life insurance and reinsurance markets. These restrictions on U.S. firms were inconsistent with the "national treatment" provisions of the 1956 Treaty of Friendship, Commerce, and Navigation between the United States and Korea.

We requested and received written comments from representatives of the U.S. insurance industry, the Life Insurance Association of Korea, and the Korea Non-life Insurance Association. The U.S. and

Korean Governments conducted a series of consultations and negotiations regarding modification of Korean practices.

On July 21, 1986, the White House announced that the U.S. and Korea had reached an agreement concerning access to the $5 billion Korean insurance market. Under the agreement, Korea will take specified actions to improve American firms' access to that market, such as licensing qualified U.S. insurance firms to underwrite both life and non-life insurance in Korea. Further, Korean insurance authorities will review all applications in a timely manner, and provide written notice of their decision on the qualification of U.S. firms. The two governments also established a consultative mechanism to ensure discussion of matters relating to the implementation of the agreement and other issues relating to the Korean insurance market.

On August 14, 1986, the President determined under Section 301 that this agreement was an appropriate and feasible action to resolve the investigation initiated on September 16, 1985. Therefore, he approved the agreement, directed the Trade Representative to implement and monitor it, and terminated the investigation under Section 302.

On September 10, 1987, the U.S. and Korea exchanged letters amending this agreement. As amended, the agreement expressly requires the Korean Government to: (1) license qualified U.S. firms to underwrite insurance without regard to form of establishment effective January 1, 1988 (e.g., to allow joint ventures); (2) in close consultation with the U.S., establish by January 1, 1988, guidelines for the participation of Korean firms as joint venture partners; and (3) accept immediately letters of intent from two U.S. firms regarding their joint ventures, with formal applications to be accepted as of January 1, 1988.

USTR is monitoring closely the implementation of the 1986 settlement agreement, as amended last September.

D. Korea Intellectual Property (301-52)

At the President's direction, on November 4, 1985, the Trade Representative self-initiated an investigation into the adequacy of the laws of the Republic of Korea governing the protection of intellectual property rights and the effect of these laws on U.S. trade. The initiation notice stated that Korea's laws appeared to deny effective protection to U.S. intellectual property. Specific problems included the lack of patent protection for certain types of products, limitation of protection to process patents in some cases, and the lack of copyright protection.

The Trade Representative asked interested parties to submit written comments regarding the appropriate scope of the investigation, support or opposition to the investigation, and detailed information regarding specific problems created by Korean laws and their effect on trade. USTR received extensive comments from U.S. industries regarding specific problems with intellectual property protection and enforcement of existing laws, including copyright protection for computer software and audio recordings, effective enforcement of copyright laws pertaining to literary works, and patent protection for pharmaceutical and agricultural chemical products.

On November 29, 1985, the U.S. and Korean Governments began a series of consultations and negotiations in both Korea and Washington.

On July 21, 1986, the White House announced that the consultations had culminated in an agreement under which Korea's protection of

copyright, patent and trademark rights will be dramatically improved. Korea agreed to take the following actions.

Concerning copyrights, the Korean Government agreed to:

- o present to its National Assembly for enactment by mid-1987 comprehensive copyright bills including coverage of traditional literary works, sound recordings, and computer software;
- o ensure the consistency with the general copyright law of the separate law for computer software;
- o establish an interministerial committee to ensure that the administration of these laws conforms;
- o provide a copyright term of life plus fifty years for works whose authors are individuals, and of fifty years from first publication in the country of origin for works authored by juridical entities, such as corporations;
- o accede to the Universal Copyright Convention and Geneva Phonograms Convention during 1987;
- o afford protection for sound recordings for a twenty-year term as a neighboring right in the new copyright law;
- o strengthen the protection for sound recordings against unauthorized reproduction, importation and distribution through stricter enforcement of Korea's Phonograms Law;
- o study the feasibility of extending copyright protection to data bases such as compilations, semiconductor chips, satellite telecasts, and cable TV; and
- o strengthen penalties against copyright infringement under the new copyright law so that the rights of both domestic and foreign copyright owners can be protected effectively.

Concerning patent rights, the Korean Government agreed to:

- o introduce for enactment by mid-1987 a comprehensive bill to amend the patent law to include patent coverage for chemical and pharmaceutical products and new uses of chemical and pharmaceutical products;
- o establish a patent term of fifteen years from the date of publication of the patent application, and provide for the granting of nonexclusive licenses only in those situations in which the dependent patent represents a substantial technical advance over the dominant patent;
- o provide patent protection for new microorganisms effective mid-1987; and
- o accede to the Budapest Treaty in 1987.

On trademarks, Korea eliminated its previous requirement for technology inducement as a condition for accepting applications for trademark licenses. As a result, the trademark license is permitted to continue beyond the life of any accompanying technology inducement agreement. Korea also agreed to:

- o no longer require joint venture or raw material supply agreements for trademark licensing;
- o repeal export requirements on goods covered by trademark licenses;

- lift restrictions on royalty terms in licenses;
- under its Office of Patent Administration guidelines, provide that import bans or restrictions constitute "just cause" for nonuse, thereby precluding cancellation for nonuse or rejection of a trademark registration of goods subject to such restrictions; and
- adopt and implement guidelines prohibiting domestic entities from registering trademarks identical to or resembling those owned by foreign entities, regardless whether the foreign mark is "well known" in Korea.

The Korean Government also agreed to ensure adequate protection of intellectual property rights, give a high priority to enforcement, and enact effective penalties for intellectual property rights violations. Moreover, the two governments agreed to establish a consultative mechanism to discuss matters relating to implementation of this agreement and other issues related to protection of intellectual property.

On August 14, 1986, the President determined that the agreement between the United States and Korea was an appropriate and feasible action to resolve the investigation self-initiated on November 4, 1985. Accordingly, he approved the agreement, directed the Trade Representative to implement and monitor it, and terminated the investigation under Section 302.

Since conclusion of the agreement, USTR has monitored its implementation. Several problems have developed recently. U.S. industry has complained about inadequate patent protection and enforcement. Moreover, there has been evidence of widespread piracy in Korea of U.S. copyrighted textbooks. In response, the U.S. has called for consultations under the 1986 agreement, scheduled for the week of January 25.

E. Argentina Soybeans (301-53)

On December 13, 1985, the National Soybean Processors Association (NSPA) filed a petition complaining about Argentina's system of differential export taxes, under which exports of soybeans are subject to a higher export tax than exports of soybean oil and meal. On January 27, 1986, NSPA withdrew its petition without prejudice. On April 4, 1986, it again filed a petition, and we initiated an investigation on April 25. We consulted with the Government of Argentina on several occasions.

On May 14, 1987, the President suspended the investigation in response to the decision by the Government of Argentina to eliminate export taxes on soybeans and soybean products (which, since the filing of the petition, had been reduced to 15 percent on soybeans and 3 percent on soybean meal and oil). The President noted that the Government of Argentina had recently informed the Trade Representative of its decision to eliminate those taxes within 180 days. When implemented, the President stated, this action would eliminate the practice under investigation. The President directed the Trade Representative to notify the Government of Argentina of his determination and to take any actions necessary to implement and monitor it.

Based on such monitoring, however, the Trade Representative determined in late 1987 that the Government of Argentina had failed to meet its commitments on a timely basis. With the support of the petitioner, U.S. provided the Argentine Government a further opportunity to resolve this dispute amicably in lieu of unilateral U.S. action. Based on discussions in November and December 1987, we are hopeful that a satisfactory settlement will be possible early in 1988.

F. EC Enlargement (301-54)

On March 31, 1986, the President announced that he would take action under Section 301 if the European Community (EC) did not rescind certain quantitative restrictions on soybeans and feedgrains in Portugal and if the EC did not provide, by July 1, 1986, adequate compensation for damage to U.S. exporters of corn and sorghum resulting from the withdrawal of tariff commitments and the imposition of high variable import levies on those products in Spain. The restrictions in question were introduced by the EC on March 1, in the context of Spain and Portugal joining the EC.

We held public hearings on proposed U.S. actions on April 21-22. On May 15, the President proclaimed import quotas on certain EC products (certain chocolate, candy, apple juice, certain beer and white wine) under the authority of Section 301 in response to the EC restrictions in Portugal. Those quotas are adjustable to mirror the effects of the EC measures on U.S. exports to Portugal. In the same proclamation, the President also withdrew certain international tariff commitments (including those affecting certain canned hams, carrots, endives, cheeses, white wine, gin, and brandy), in response to the EC's withdrawal of Spanish tariff commitments on corn and sorghum. However, U.S. tariffs were not increased, pending efforts to negotiate compensation for U.S. claims.

On July 2, the United States and the EC reached an interim solution of the dispute regarding corn and sorghum exports to Spain. The EC undertook to assure that any loss of U.S. exports of corn and sorghum to Spain compared to a monthly average of 234,000 metric tons for the remaining six months of 1986 would be offset by increased access to the EC under a reduced import levy quota. The United States agreed during this period not to increase duties on EC products while the two parties sought a definitive settlement. Despite extensive negotiations throughout this period, the EC was unwilling to compensate the U.S. sufficiently by the agreed deadline of December 31, 1986. Therefore, on December 30, Ambassador Yeutter announced the President's decision to raise duties to 200 percent ad valorem on imports from the EC of the above-listed products on which U.S. tariff commitment were withdrawn in May 1986. He noted that these increases would be effective by the end of January 1987, unless acceptable compensation from the EC could be achieved.

By Proclamation 5601 of January 21, 1987, the President determined pursuant to Section 301(a), (b) and (d)(1), that duties should be increased to 200 percent ad valorem on a most-favored-nation basis on certain specified articles (certain hams, cheeses, endive, carrots, olives, white wines, brandy and gin). (Moreover, the rates of duty for countries not receiving most-favored-nation treatment were to be modified accordingly.)

However, in the event the EC provided adequate compensation for the imposition of variable levies on corn and sorghum imports, or if other circumstances so warranted, the President authorized the Trade Representative to suspend, modify or terminate the increased duties if he determined that such action is in the interest of the United States.

In a Federal Register notice effective January 30, 1987, the Trade Representative noted that the U.S. and EC reached an agreement on January 29, 1987. The EC agreed to provide adequate compensation to the United States at least for the period through December 31, 1990. It agreed, inter alia, to extend certain tariff commitments, reduce certain tariffs and take steps to assure EC importation of certain quantities of feedgrains from non-EC countries.

Based on these developments and pursuant to the authority delegated to him by the President in the January 21 proclamation, the Trade Representative determined that it is in the interest of the United States to suspend, effective January 30, 1987, the increased duties imposed by Proclamation 5601 on all the articles specified in the annex to that Proclamation. USTR is monitoring the EC's compliance with the agreement.

G. Canada Salmon and Herring (301-55)

On April 1, 1986, Icicle Seafoods, Inc. filed a petition complaining about the Government of Canada's restrictions on the exportation of unprocessed salmon and herring. On May 16, we initiated an investigation and asked for consultations.

We consulted with the Government of Canada under GATT Article XXIII:1 without reaching a mutually satisfactory resolution. We then requested the establishment of a panel under Article XXIII:2. In late November 1987, after reviewing briefs and oral arguments by the parties, the panel ruled in favor of the United States. Essentially, it determined that Canada's export controls were inconsistent with Article XI of the GATT and not justified by any other GATT provision.

In accordance with GATT practice, this report will be considered for adoption by t GATT Council. The U.S. will move such adoption at the first GATT Council session in 1988. If the GATT Council adopts the report, Canada will be expected to take action to come into compliance with its GATT obligations.

H. Canada Softwood Lumber (301-58)

On December 30, 1986, without a preceding investigation under Section 302, the United States and Canada concluded a softwood lumber agreement. The Government of Canada agreed to impose a charge of 15 percent ad valorem on certain softwood products exported to the United States. The United States agreed that this charge may be reduced commensurately as the Canadian provinces modify their practices regarding the terms and conditions under which stumpage (standing timber) may be harvested, so as to eliminate the subsidy preliminarily found by the Department of Commerce in October 1986 in a countervailing duty proceeding.

However, the Canadian Government indicated that for administrative reasons, it would be unable to impose and collect the charge on December 31, the first day the charge should have taken effect under the agreement. To avoid any harm to the U.S. industry pending full Canadian implementation of its obligations under the agreement, the President proclaimed under Section 301 a temporary 15 percent ad valorem duty increase applicable to imports into the U.S. of certain softwood products of Canada. As the necessary predicate for this action, the President determined under Section 301 that acts, policies and practices of the Government of Canada regarding stumpage were unjustifiable or unreasonable and a burden or restriction on U.S. commerce.

In a Federal Register notice effective January 8, 1987, the Secretary of Commerce determined that Canada had begun to collect an export charge on exports to the United States of certain softwood lumber products. Therefore, the Secretary announced the suspension of the additional duty of 15 percent on imports from Canada of such products. On May 26, 1987, the Government of Canada passed legislation providing for this tax.

On December 16, 1987, the U.S. and Canada concluded a related agreement principally approving certain "replacement measures" being taken by British Colombia with respect to its stumpage practices. This is a positive development, reflecting that the

Canadian provinces are exploring ways to modify the terms and conditions under which they allow stumpage to be harvested, consistent with the U.S. countervailing duty law.

I. India Almonds (301-59)

On January 6, 1987, the California Almond Growers Exchange filed a petition alleging that the Government of India has engaged in practices affecting imports of inshell and shelled almonds that deny rights of the United States under a trade agreement, are inconsistent with a trade agreement, and are unjustifiable or unreasonable and cause a burden or restriction on United States commerce. The practices complained of are quantitative restrictions on imports of almonds into India, import licensing practices for almonds, and tariffs on almonds.

On February 20, 1987, the Trade Representative initiated an investigation of these practices and requested consultations with the Government of India. Those consultations were held in Geneva in June under Article XXIII:1 of the GATT and Article 4 of the Agreement on Import Licensing Procedures (Licensing Code).

In the Licensing Code case, establishment of a code panel and terms of reference have been agreed to. The U.S. and India are still seeking agreement on particular panelists.

Since bilateral consultations under Article XXIII:1 failed to resolve the GATT issue, the U.S. requested the establishment of a panel under Article XXIII:2 at GATT Council sessions in July, October and November 1987. At the last such meeting, India agreed. The two governments are now drawing up terms of reference and considering possible panelists.

The deadline for the Trade Representative's recommendations to the President in this case is 30 days following the conclusion of dispute settlement.

III. Petitions in Response to Which an Investigation Was Initiated

A. EC Third Country Meat Directive (301-60)

On July 14, 1987, a petition was filed by the American Meat Institute, U.S. Meat Export Federation, American Farm Bureau Federation, National Pork Producers Council and National Cattlemen's Association. Petitioners complained of the EC's Third Country Meat Directive, which allegedly subjects meat imported from the U.S. into EC members countries to regulatory requirements not observed within those countries, not fully enforced or observed in meat packing plants shipping across national boundaries in the EC, and not based or justified by any valid scientific analysis. Moreover, petitioners alleged that the Directive was generally unjustifiable, unreasonable or discriminatory and a burden or restriction on U.S. commerce.

On July 22, the Trade Representative initiated an investigation, and USTR requested consultations with the EC. Those consultations did not result in a satisfactory resolution, so the U.S. requested the establishment of a dispute settlement panel under Article XXIII:2 of the GATT. After initially blocking the United States request, the EC later acceded to it in December 1987. The panel formed will recommend a determination to the GATT Council.

The Trade Representative's recommendations to the President in this case are due within 30 days following the conclusion of GATT dispute settlement.

B. Brazil Pharmaceuticals (301-61)

On June 11, 1987, the Pharmaceutical Manufacturers Association filed a petition alleging that the Government of Brazil denies process and patent protection to pharmaceuticals products and that this policy and practice is unreasonable and burdens or restricts U.S. commerce.

On July 23, 1987, the Trade Representative initiated an investigation. We held a public hearing on September 14, to develop information on the scope and effect of Brazil's failure to provide patent protection for pharmaceuticals. We have requested consultations with Brazil, and the Government of Brazil has agreed to talks at a date to be mutually agreed upon.

The Trade Representative's recommendations to the President in this case are due one year from initiation, or by July 23, 1988.

IV. Petition in Response to Which an Investigation Was Not Initiated

A. Korea Patent Protection

On October 5, 1987, the Bristol-Myers Company filed a petition complaining of lack of adequate enforcement by the Korean government of its patent for an antibiotic, amikacin. Pending the outcome of discussions with the Korean firm allegedly infringing that patent, Bristol-Myers withdrew its petition without prejudice on November 16, 1987.

Unless the matter is resolved to our satisfaction prior to January 25, the U.S. will raise this issue (among others) in consultations with the Government of Korea scheduled for that week.

V. Petition in Response to Which a Determination Whether to Initiate an Investigation Was Not Made as of December 31, 1987

A. EC Oilseeds

On December 16, 1987, the American Soybean Association (ASA) filed a petition alleging that the European Community provides subsidies to the processors of soybeans and other oilseeds so as to nullify or impair benefits reasonably expected to accrue to the United Stats under the GATT, including specifically the EC's zero tariff binding on soybeans. ASA further complained that these EC practices were unjustifiable, unreasonable or discriminatory and a burden or restriction on U.S. commerce.

The Trade Representative's decision whether to initiate an investigation in response to this petition was due by January 31, 1988, and was pending at the conclusion of this reporting period.

On January 5, 1988, the Trade Representative initiated an investigation. USTR so advised the EC and requested consultations on this matter.

Conclusion

There have been no significant developments in other Section 301 proceedings; their status therefore remains unchanged from that reported in previous semiannual reports.

TRADE AND ECONOMIC POLICY

Question 5. According to the 1987 National Trade Estimates, "U.S. companies have received only small contract awards totaling about $1.6 million for contracts given to date on the new $8 billion Kansai International Airport. The Japanese system of designated bidding has hindered foreign firms seeking to bid on and obtain contracts. Kansai is the first of $60 billion in major Japanese projects between now and the turn of the century. U.S. goods and service producers stand to lose millions of dollars of potential business in airport design, consulting and engineering services; construction; and equipment and supply sales."

a. Is it true that an agreement was reached, but the Japanese cabinet failed to accept it? Did the Japanese try to reduce the scope of the agreement after the negotiations?

b. Was the catalyst for reaching an agreement on Kansai the legislation introduced by Senator Murkowski and enacted into law that prohibited foreigners to bid on government contracts if they are from a country where there is not reciprocal opportunities?

Answer 5. On March 29, 1988 Ambassador Michael Smith and Deputy Chief Cabinet Secretary Ozawa concluded an ad referendum agreement on U.S. access to the Japanese major projects construction market. The agreement sets out open, non-discriminatory procedures allowing U.S. firms into the bidding process and gives American firms access to more than $16 billion in major projects in Japan over the next 10 to 15 years.

After the agreement was reached, two technical difficulties developed which delayed finalization of the agreement. As is the case with most negotiations, situations arose which required further consideration. In this case, the disagreements centered around the purchase of airport surveillance radar and the form of corporate presence U.S. firms must take in Japan to be qualified for the special measures. Our negotiators refused to finalize the agreement until these issues were resolved to our satisfaction. This done, I understand that the Japanese cabinet approved the agreement on May 24 and the exchange of letters between Secretary Verity and Ambassador Matsunaga finalizing the agreement took place on May 25.

The U.S. and Japan had been negotiating market access to the Japanese construction market for three years. The inclusion of Senator Murkowski's amendment to the Airport and Airway Safety and Capacity Improvement Act and the Brooks-Murkowski Amendment to the Continuing Resolution provided significant leverage toward the end of the negotiations. They put the Japanese on notice that the U.S. is serious about reciprocity and will not stand by and allow the Japanese to reap profits in this market while their own market remains closed to foreign competition. While the amendments offered by Senator Murkowski complemented the negotiations, other factors such as the threat of a self-initiated Section 301 case, high-level Administration attention, and industry pressure were equally important in reaching an agreement.

Question 6. In a recent New York Times article, Clyde Prestowitz claims that the U.S. does not realize its goals when negotiating with Japan because we place ourselves at a disadvantage through our negotiating practices. For example, Mr. Prestowitz notes that U.S. negotiators fail to work out a clear strategy ahead of time. The negotiating agenda results from an "ad hoc" system whereby interagency committees choose the issues, rather than from any sort of coordinated trade strategy. In addition, Mr. Prestowitz faults U.S. negotiators for their lack of knowledge concerning the issues being discussed. Mr. Prestowitz blames the U.S. political appointee system, in part, for our negotiating problems.

a. Could you please describe how your office participates in the interagency committee system?

b. Who sets trade policy in the Administration?

c. In your opinion, how does our political appointee system affect our ability to negotiate effectively?

Answer 6. The Office of the U.S. Trade Representative (USTR) has the lead role in the development of policy on trade and trade-related investment. Taking into consideration the advice of Congress, the private sector, and other interested government agencies, USTR directs the analysis process, sets priorities and timing for consideration of policy issues, and assumes responsibility for directing the implementation of trade policy decisions.

Under the Trade Expansion Act of 1962, the President established an interagency trade policy mechanism, administered and chaired by USTR, to assist with the implementation of these responsibilities. The interagency committees established under this Act constitute the principal mechanism for developing and coordinating U.S. government positions on international trade and investment issues. Member agencies consist of the Departments of Commerce, Agriculture, State, Treasury, Labor, Justice, Defense, Interior, Transportation, and Energy, the Office of Management and Budget, the Council of Economic Advisors, the National Security Council, and the International Development Cooperation Agency. Both the White House Office of Policy Development and the International Trade Commission attend meetings as observers.

The Trade Policy Review Group (TPRG) and Trade Policy Staff Committee (TPSC) are the principal interagency coordination groups for most U.S. trade policy decisions. The TPSC is the first line operating group, with representation at the senior civil servant level. Supporting the TPSC are over 60 subcommittees responsible for specialized areas and several task forces that work on particular issues. Through the interagency process, USTR assigns responsibilities for thorough economic analysis to members of the appropriate TPSC subcommittee or task force. Conclusions and recommendations of this group are then presented to the full TPSC and serve as the basis for presenting options and recommendations for interagency consensus. If agreement is not reached in the TPSC, or if particularly significant policy questions are being considered, issues are taken up by the TPRG (Deputy USTR/Under Secretary level).

When Cabinet-level review is required and/or an issue requires the attention of the President, the Economic Policy Council (EPC) is convened. The EPC is chaired by the President with Treasury Secretary James Baker III serving as the chairman pro tempore. The EPC was created in April 1985 after President Reagan overhauled the White House policy structure. (The Domestic Policy Council, chaired by Attorney General Edwin Meese III, was also created at the same time.) The jurisdiction of the EPC extends to all major economic issues and has been involved in many important trade issues. The EPC is composed of the Secretaries of State, Treasury, Agriculture, Commerce, and Labor, the U.S. Trade Representative, the Director of Office of Management and Budget, and the Chairman of the Council of Economic Advisers; the Cabinet officers of other agencies may also be invited to attend, depending on the specific issues discussed.

As for Clyde Prestowitz's views on the inter-relationship between our political appointee system and our negotiating ability, let me state on the record that Clyde did not work for USTR. Most of the observations in the book reflect his own working experience in another government agency. Clyde is also describing an earlier period in trade policy when we were less active. At no point in the book is he describing how USTR operates as an agency.

I do not believe the political appointee system has adversely affected the abilities of our negotiators. I would note that the political appointees currently in place at USTR have extensive experience in the trade area. Moreover, they are supported by, and work very closely with, an extremely talented career staff, which provides very broad experience and expertise in trade negotiations as well as a solid institutional memory.

Question 7. In a recent meeting sponsored by the Asia Foundation in San Francisco, Michael Smith, Deputy U.S. Trade Representative, claimed that the problems surrounding Congressional consideration of the Omnibus Trade Bill could cause Japan to "backslide" on efforts to reduce its trade barriers. Do you know what Mr. Smith meant by this?

Answer 7. The Administration has sought enactment of responsible trade legislation that would give us negotiating authority for the Uruguay Round of multilateral trade negotiations, strengthen protection of intellectual property rights, reduce handicaps to U.S. exporters and give us new trade law tools to strengthen the hand of America in international trade negotiations. Unfortunately, the conferees on the trade bill added a few counterproductive and costly measures, such as the provisions mandating notice for plant closings and layoffs, provisions which the conferees knew would trigger a veto. We regret that this course of events has postponed enactment of responsible trade legislation that would help us in our negotiations with Japan and so many other countries. However, there is still time in 1988 to set aside partisanship and finish the job on trade legislation, and we support prompt action on a second bill after the President's veto is sustained.

Just two weeks ago, we ended four days of negotiations with Taiwan without reaching an agreement. Peter Allgeier, the U.S. Trade Representative heading the American delegation stated that "... we fell short of [our] ambitious goal ... to launch a bilateral trade-liberalization action plan." Our negotiators had apparently hoped to encourage Taiwan to reduce its trade surplus with the U.S.

Question 8a. What are the elements of the "trade-liberalization action plan"?

Answer 8a. The "trade liberalization action plan" was a set of policy changes that we proposed to Taiwan during the bilateral consultations held last month in Taipei. The purpose of the plan was to address in a systematic and structured manner the major unresolved issues on our trade agenda as well as to start dealing with new issues in a concrete way.

The principal issues in the plan include: the protection of U.S. intellectual property rights at a level commensurate with that which Taiwan works enjoy in the U.S.; complete market opening for U.S. insurance companies; introduction and use of local currency-denominated charge cards; implementation of a policy of national treatment in the banking and securities area; and expanding the previous agreement on beer, wine, and cigarettes. In the agricultural area we are seeking a reduction of tariff rates on competitive U.S. products, removal of the import bans on various agricultural products. We also are seeking to establish a timetable for additional reductions in industrial goods tariffs and the reduction of non-tariff barriers that increase the cost and complexity of doing business in Taiwan. Finally, we are seeking to intensify our dialogue with Taiwan on issues being raised during the Uruguay Round of GATT negotiations.

Question 8b. Why didn't we succeed in this effort?

Answer 8b. Our disappointing results last month were in large part a reflection of the current political realities in Taiwan. Taiwanese officials are reluctant to commit to new liberalization agreements with the United States prior to the July party congress of the ruling Kuomintang (KMT) party. Individual officials are reluctant to be seen as caving in to U.S. pressure during a time when their own position after the July congress may be in question. In addition, the political liberalization of the past year has resulted in public demonstrations against trade liberalization (e.g., framers' protests) and a much more critical press attitude; this adds to the pressure on officials to take a hard-line against additional liberalization.

Question 8c. What plans have you made for the proposed talks in June and August to stop this impasse?

Answer 8c. We have proposed follow-up talks in June protection of intellectual property rights. In August, talks will focus on the financial services sector, which will include insurance, banking, and securities. The issues currently of concern in the Uruguay Round of GATT negotiations will be discussed with Taiwan later in the summer. Finally, the individual talks held over the course

of this summer will be followed by general bi-lateral negotiations currently proposed for September.

Question 9. One theme, if you will, of the pending trade bill is to give your office a more powerful voice in debates within the government on trade. The bill transfers authority to retaliate in certain unfair trade cases from the President to the Trade Representative. What benefits will accrue from this transfer? Will your office now be able to present a more united U.S. position on trade to our trading partners?

Answer 9. The Administration has strongly opposed all transfers of authority in trade matters from the President to the Trade Representative. I support this position, and particularly in the case of unfair trade practice cases. It is very constructive to have the Nation's chief executive personally involved in these cases. When the President finds that a practice is unfair, it packs much more punch with a foreign government compared to a statement by any Cabinet officer. The President's personal involvement can mobilize a foreign government in a way that nothing else can. He can compel attention and grab headlines in a way that a Cabinet official could not. We don't understand why the Congress would want to lessen the President's involvement in trade. We agree on the desirability of presenting a united front to our trading partners -- but we think it is more likely to happen if the Trade Representative is free to be an advocate and an honest broker in the trade policy process. Having the President in charge means that once he has decided, all agencies must follow.

In a March 12 article in the National Journal, the author notes that "while price is the determining factor in most economic decisions in the U.S., in Japan it is only one of many criteria that include personal and institutional relationships, quality, service and national aspirations." However, the Administration still formulates policy on the fundamental assumption that the Japanese economy functions on free-market principles.

The article goes on to criticize the MOSS talks or Market-Oriented-Sector-Specific talks.

The article goes on to say --

The MOSS process never had a chance, according to some observers. "The U.S. wanted to increase market share, Japan wanted to increase market access. The Americans thought these goals were synonymous. The Japanese knew that they weren't."

Question 10. Would you agree with this assessment?

Answer 10. In 1985 and 1986, the USG engaged the GOJ in the MOSS talks to improve sales to the Japanese market in five key sectors. The goal of the USG was to eliminate barriers to the Japanese market in these sectors so that foreign goods could flow unimpeded into the market. It was our hope that U.S. firms would take advantage of the newly opened markets and compete effectively for sales. In an open market, the U.S. share of the market would be determined

by price, quality, after-sales service and other business considerations--not by some predetermined level. I believe that we shared these goals with the GOJ throughout the negotiations.

U.S. exports to Japan (in dollar terms) during the first half of 1987, compared to the same period in 1986, increased in the first four sectors by a total of 19.4 percent as compared to an overall decrease in exports of 4.5 percent. We are continuing to monitor the agreements in these sectors to ensure full implementation by relevant ministries.

Question 11. In an editorial in the Wall Street Journal, it was noted that the current U.S. government approach to trade barriers is a "sort of product-by-product 'retail' trade policy." The Gephardt amendment was called a "wholesale" approach by measuring bilateral trade flows and patterns of trade barriers.

Answer 11. We would prefer to characterize our current approach as a targeted, rifle-shot policy, and the Gephardt amendment as a blunderbuss. Since no government's resources are infinite, we go after the trade barriers that U.S. industry and our own advance intelligence have identified to us as important. We aggressively use international law in the GATT, and our leverage under our domestic trade laws, to put selective, intense pressure where it is needed most.

This doesn't mean that we are tied to a product-by-product approach, though. In 1986, when Taiwan failed to implement its commitment to implement customs valuation procedures consistent with GATT norms, and up-valued the dutiable value of many imports arbitrarily, the President found that this was an unfair breach of Taiwan's trade obligations to the U.S. and announced that we would retaliate under Section 301 of the Trade Act of 1974 unless matters were immediately rectified systematically and across the board. We achieved success in fixing this valuation problem shortly thereafter.

It is also important to remember that an attack on unfair trade barriers is only one component of the Administration's trade policy. More important has been our effort to address the economic fundamentals such as exchange rates and our overall economic competitiveness.

Question 12. The editorial goes on to criticize the Gephardt amendment as a bad idea, while acknowledging that the "retail" approach isn't working. One top Reagan administration trade official was quoted as saying "I'm against the Gephardt bill. But privately, I'd love to find a wholesale approach. I keep asking people around here to come up with one, but we haven't been able to so far."

Answer 12. We think our present approach is working. An attack on unfair trade barriers alone is no solution, because unfair trade barriers constitute only a small part of the cause of our overall trade deficit. Viewed in the context of the Reagan Administration economic program, our approach is showing dividends in reduction of the trade deficit, as shown by the most recent trade figures. The Gephardt approach

would be worse than useless -- it would trigger trade war and lead to reduction of our exports. This is one of the reasons that the Gephardt amendment was widely opposed in the American business community and especially by our agricultural exporters.

Question 13. In a speech you made in Australia earlier this year, you said, "He (President Reagan) is committed to vetoing the omnibus trade bill if it remains protectionist." Is the plant-closing provision, the President's main objection, protectionist?

Answer 13. We don't think the plant closing provision itself is protectionist. We appreciated the efforts of the Congress in watering down or eliminating the most protectionist provisions from the trade bill -- which is one reason why we would welcome a second trade bill that does not include the provisions to which the President objected in his veto message.

Question 14. In a speech you offered your analysis of the trade bill as such: "I do know that a bill that would be unacceptable to Australia would almost assuredly be unacceptable to President Reagan." Does President Reagan regularly consult foreign interests before taking a position on a trade matter?

Answer 14. We have, of course, heard the unsolicited views of many foreign governments on the subject of the trade bill, since it vitally affects their interests. I can assure you that when trade legislation that affects our interests is under consideration in Japan, the European Communities or other countries, we follow its progress and we weigh in with our views. We see that as part of doing our job for the American exporter. The veto message on the trade bill, however, reflects issues that were of central importance to the American business community and to our national economic policy, such as our concerns on mandatory notification of plant closings and layoffs.

Question 15. In a speech you gave in Tampa, Florida earlier this year, you said, "There are nearly as many people employed in manufacturing as there were ten years ago." According to the Bureau of Labor Statistics, we have lost 1.175 million manufacturing jobs since President Reagan took office. Do you consider that to be inconsequential?

Answer 15. As I noted in my statement in Tampa, there are today almost as many people employed in manufacturing as there were ten years ago. In 1977, there were 19.7 million manufacturing workers in the United States. By the end of 1987, there were 19.4 million manufacturing workers.

Perhaps of even greater importance, we have added 22.7 million net new civilian jobs to our economy since 1977. Most of that employment growth has come during the Reagan Administration. Since 1981, we have added 14.3 million new civilian jobs to the economy. Unemployment has dropped to 5.4 percent, its lowest level since 1974, and the labor force participation rate is at historic highs.

It certainly is true that the level of manufacturing employment has fluctuated in a relatively narrow range over the past 20 years. At the same time, however, manufacturing output has continued to rise. In 1987, manufacturing output was 34.7 percent higher than in 1977. What has happened is that strong growth in manufacturing productivity has allowed us to increase output without substantially increasing employment. This is not a sign of weakness in the manufacturing sector, but rather of strength, since productivity growth helps keep us competitive.

Question 16. A major study conducted by Lawrence Summers of Harvard, and recently released by the Eastman Kodak Company said, "It is true that we in manufacturing are doing better, but in large measure, this is due to the revaluation of the dollar and the largest peacetime defense build-up in history." Please comment.

Answer 16. I think that statement contains an element of truth, but it substantially simplifies the forces affecting U.S. competitiveness in manufacturing.

Clearly, the decline in the value of the dollar has helped make our exports more price competitive in overseas markets, while making imports more costly here in the United States. That shift in price competitiveness has helped boost the volume of our exports by 22 percent over the past year. At the same time, increased federal spending, both on defense and in nondefense areas, helped give a spur to economic growth.

Yet much else has gone into stimulating manufacturing's resurgence. In the long run, competitiveness is not based on a price advantage resulting from exchange rate changes. Our firms have to be productive and make goods and provide services that consumers will buy. Over the past five years, our firms have invested over $419 billion a year in structures and equipment. At the same time as they have invested in new plant and equipment, they have closed many of the older, often less productive plants. The result is we have a leaner, more productive, and more competitive industrial base.

Many of our companies and our workers have shown a renewed determination to build quality products that consumers here and abroad want to buy. There has been a more aggressive attitude on the part of many companies. Rather than waiting for the customer to beat a path to their doorsteps, many of our firms are out there knocking on doors and pushing their products.

What the Administration has done and continues to try to do is to create the economic conditions in which our businesses and workers can prosper. But it is up to business to take advantage of these opportunities, and they have.

TRADE ENFORCEMENT

Question 1. Last year, China was involved in a wide-spread false quota scheme that resulted in huge overshipments of textiles to the U.S. What does this say about the strength of our agreements?

Answer 1. I believe that the situation to which you refer concerned shipments with fraudulent Chinese visas. While some shipments with fraudulent visas did enter the U.S., these were all charged to the appropriate quotas. Others were permanently denied entry into the U.S. The effect was not that the quota levels were over shipped but rather that they were embargoed before they normally would have been. Thus, U.S. importers of Chinese goods, and not domestic producers of these items, were the ones hurt by the fraudulent visa scheme. Chinese authorities cooperated with U.S. authorities to devise a better system of export control. This system has now been implemented and we do not anticipate further problems.

Question 2. Many of the overweight shipments from China came in through the port in Newark, New Jersey. My office spoke with the inspector who found the overshipments and he said that overweight shipments have slowed for two reasons:

1) because foreigners know the inspector is checking; and,

2) because of new Customs Service directives 4400-07 and 4400-08. The Office of Inspection and Control at the Customs Department recently issued these directives which change the guidelines for seizing overweight shipments. Specifically, they raise the threshold at which overweight shipments must be seized from 5% to 10%.

Why should the U.S. be allowing a greater margin of fraud or error for customs offenders?

Answer 2. Because your question deals with enforcement procedures outlined in an internal Customs Service Directive, and USTR is not involved in any way with these procedures, I would suggest that you direct your question to the Customs Service.

Question 3. Throughout the trade bill negotiations, the Adminstration maintained that it could "be tough" on unfair foreign trade practices without resorting to retaliatory methods, such as those contained in the Gephardt Amendment. How exactly can we "be tough"? What leverage can U.S. negotiators exert to force our trading partners to address the problem of unfair trade practices?

Answer 3. During the negotiations on the trade bill, we didn't say we wouldn't ever resort to trade retaliation. We think retaliation as a last resort is useful and indispensable in trade negotiations. What we did say is that present law provides us with plenty of authority to retaliate, and that we are very willing to use that authority now, where it is appropriate. It was appropriate to retaliate when Japan failed to live up to the semiconductor arrangement, and so we did. It would have been appropriate to retaliate if the European Community had cut off our feed grain exports as a result of the incorporation of Spain and Portugal into the EC, and so we announced our retaliation list and told the EC we were ready to go unless a solution acceptable to us was reached. Fortunately, we got a deal that was in our interest -- and our readiness to retaliate was a factor in getting that deal. But we need to keep the ability to pull the trigger if and when it is appropriate to do so.

Mandatory retaliation, or the Gephardt blunderbuss approach, is not in the interest of our exporters or the United States economy.

Question 4. Clyde Prestowitz, formerly a top aide to Secretary Baldrige, has said that "the U.S. will have to run a trade surplus in the not-too-distant future. It is true that U.S. exports are up [in 1987] over last year. But a glance at the nature of those exports shows that they are largely raw materials or commodity products derived from raw materials...There is a limit to the amount of further increase in exports of these kinds of goods."

Would you agree?

Answer 4. I would agree that we may, at some point, have to run a merchandise trade surplus if we are to have a balanced current account (see answer to the earlier question on the trade surplus for a more complete expl nation).

As to the prospects for U.S. export growth and the nature of U.S. exports, I have some problems with the quotation from Mr. Prestowitz.

First, with respect to U.S. exports in 1987, I differ with Mr. Prestowitz. For example, U.S. exports of machinery and transportation equipment alone rose $13.3 billion in 1987 over 1986. That increase accounted for 51 percent of the total growth in dollar terms in U.S. exports in 1987.

Moreover, barring a major economic crisis, I think there is a reasonable possibility that our export growth will continue to be strong across the board for the next few years. The GATT estimates that world trade volume should grow at least 4 percent in 1988. If the value of world trade increases by the same amount, world exports would grow by at least $100 billion, giving us ample opportunity to sell our products overseas.

In addition, U.S. firms should be poised to take advantage of export opportunities abroad. In 1988, many forecasts project substantial business investment in plant and equipment, investment which will allow our firms to expand their output for both export and domestic sale.

In short, I think our firms will have the opportunity and the capacity to export in the years ahead. The challenge facing them is to take advantage of the opportunities that will exist.

Question 5. Mr. Prestowitz goes on to say -- "At the moment, our trading partners have no incentive to negotiate because they know that whenever a trade issue becomes difficult, the State Department and the National Security Council (NSC) will urge the White House to do nothing that might harm broader relationships." Has this been your experience as well?

Answer 5. No, this has not been my experience. While both the NSC and the State Department participate in the interagency trade policy system, I don't believe that either these

agencies or the Administration as a whole is predisposed to sacrifice vital commercial interests for "broader relationships." Obviously, considerations of foreign policy and national security are taken into account in our trade policy deliberations, but I believe the Administration has clearly demonstrated its willingness to deal firmly and effectively with "difficult" trade issues --- and to take retaliatory trade actions if necessary.

Question 6. Mr. Prestowitz noted in his recent book Trading Places that the Administration's highly publicized trade strike force "was only a speech writer's rhetorical flourish. It was a wholly political move. There had been no prior planning. No one knew what this strike force should do...." In your opinion, is this an accurate assessment of the Strike Force?

Answer 6. The Strike Force should not be evaluated on the basis of the purity of its planning process, but on the basis of the results it has produced in terms of cases actually brought and markets actually opened. Since the Strike Force was organized and has been maintained wholly by the Commerce Department, I am not in a position to assess its effectiveness.

Question 7. On semiconductors, Mr. Prestowitz said "Never once did I hear an economist or a representative of only [sic] economic agency speak in favor of taking action to aid a U.S. industry."

a. Doesn't the U.S. government represent U.S. interests?

b. He also said that USTR wanted to go slow on semiconductors because it was afraid that Commerce was invading its turf. Is this true?

Answer 7.
a. Of course the U.S. government represents U.S. interests, and it is also true that some have different views of what is in the best overall U.S. interest. Resolving such differences is the whole purpose of the interagency process. With respect to semiconductors, USTR and the U.S. government acted in a manner consistent with the interests of the U.S. semiconductor producer and consumer industries. Both industries have made numerous statements to this effect.

b. Mr. Prestowitz noted that at one point in a multi-year process, USTR preferred a different tactic than Commerce. To the extent Mr. Prestowitz interpreted differences in recommended tactics as related to turf, he is incorrect. There certainly was no attempt to stall. In fact, a review of Mr. Prestowitz's entire discussion shows that USTR and the Department of Commerce worked very well together on the semiconductor issue. While Mr. Prestowitz's discussion is necessarily his own personal view of a process that is open to other interpretations, his depiction of the constructive cooperation of USTR and Commerce is basically correct.

CITRUS

Question 8. In 1976, the Florida Citrus Commission petitioned USTR under section 301, alleging that the European Community

(EC) placed preferential tariffs on citrus juices and fruits from the Mediterranean which adversely affected U.S. exports. The dispute was taken to GATT and ultimately left unresolved in that body. An agreement was reached between the EC and the U.S. That agreement was that the U.S. would get to import 1,500 tons of orange juice concentrate (2/10 of 1 % of U.S. production) at a lower tariff. After 11 years, the U.S. citrus industry got a stringent quota on what it can sell to the U.S. [note: USTR believes this should be "...sell to the EC..."] and the U.S. gave up the right to challenge E.C. preferences.

Needless to say, the U.S. citrus industry was not pleased with this agreement.

Do you consider this agreement a success?

Answer 8. Every negotiated agreement has its limitations and although we would have preferred even greater EC liberalization in the citrus talks, the agreement must be seen as a success when compared with the status quo ante. The agreement did not only result in a liberalized tariff rate quota for frozen concentrated orange juice (FCOJ) but also in liberalized tariff rate quotas for sweet oranges, minneolas, lemons and almonds. The EC concession on almonds is particularly significant, as almost one quarter of U.S. almond production is shipped to EC markets. Absent this agreement, the entry of Spain -- a major almond producer -- into the EC, would have placed U.S. exporters at a substantial disadvantage, as the EC phased out its tariff on Spanish almonds.

Another aspect to the talks which needs to be borne in mind is that the absence of an agreement would likely have meant not only the continuation of greater barriers to U.S.-EC trade in FCOJ and other citrus products but also the continuation of the retaliatory measures which the EC had instituted on lemons and walnuts following our own increased duties on pasta imports from the EC.

PASTA

Question 9. A 301 case was filed in 1981 challenging the EC pasta subsidies. The GATT ruled in 1983 that the subsidies were illegal. The U.S. Government failed to act until 1985. Retaliation was then directed against the EC's refusal to settle the citrus dispute. Retaliatory tariffs on pasta were withdrawn in 1986 when the citrus dispute was settled. After further negotiations, the EC agreed to eliminate subsidies on 50% of its pasta. It is my understanding that as of January 1, 1988 there has been no decline in imports and prices of pasta have continued to fall.

Why would any industry want to file a 301 petition when it took six years to settle this one, eleven years to settle citrus and neither show any results in increased exports or decreased imports?

Answer 9. Reaching the interim* agreement reflected in the pasta settlement was a difficult task which was significantly complicated by the GATT Subsidies Code Committee's inability** to come to a ruling on the "legality" of the EC export subsidies. As such, it took a long time to reach an accommodation with the EC. It should be noted, however, that this interim settlement has the full support of the National Pasta Association, the petitioning industry in this case.

The objective of this settlement was not to reduce imports or increase exports but to substantially mitigate the adverse effects of the identified unfair trade practice (the EC's export subsidies ~~and the price~~ effect of these subsidies in the U.S. market). There is no question that the agreement has substantially reduced the use of export subsidies for EC pasta imported into the U.S. market. Not only has the EC agreed that one-half of all shipments to the U.S. should be without the benefit of subsidies but it has also agreed to reduce the level of the subsidy applicable to the remaining 50% shipped with subsidy.

Not all section 301 cases take as long to resolve as the citrus and pasta cases and, in any event, any trade dispute which might involve the threat of U.S. trade sanctions generally requires the use of section 301 (whether through the filing of a petition or self-initiation) as the basis for the President's legal authority to impose such sanctions.

The issue was litigated in the Subsidies Code Committee where strong opposition from the EC and other (European) Code members prevented adoption of the Panel Report and therefore a "ruling" that the subsidies were "illegal". The U.S., however, continues to hold that the subsidies violate the EC's Code obligations.

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* The "Settlement", in paragraph 10, reflects both parties' desire to resolve the issue on a definitive basis in the Uruguay Round negotiations as quickly as possible.

** The GATT never ruled that the EC subsidies were illegal.

LEATHER FOOTWEAR

Question 10a. Since the conclusion of the 301 case against Japanese and Brazilian leather footwear, have exports increased to these two countries?

Question 10b. Did the U.S. footwear industry benefit from the filing of these two actions?

Answer 10. U.S. industry has benefited somewhat from the filing of its 301 cases against Japan and Brazil. In the case of Japan, our most recent data show that U.S. exports of nonrubber footwear increased by only $500,000 from JFY86 (Japan Fiscal Year: April 1-March 31) over JFY85. Japanese importers of U.S. products have had difficulty obtaining sufficient import quota shares, often as a result of their being classified as newcomers and therefore having no import history upon which to base their requests. The U.S. Government has intervened on behalf of those U.S. firms that have requested assistance, with mixed success.

In the case of Brazil, U.S. exports have more than doubled in dollar terms from the period prior to the settlement of the 301 case to the years following its resolution. In 1984, U.S. exports of leather footwear to Brazil were 86,000 pairs worth $460,000. In 1985, pairage had dropped to 22,000 worth $203,000. However, following the settlement of the case and Brazil's implementation of the agreed measures -- which included elimination of the 100 percent import surcharge and of the ban on import licensing and the reduction of the import tariff for certain types of footwear -- U.S. exports grew to $543,000 in 1986 and $1.1 million in 1987. (No pairage information is available for these years.)

POULTRY

Question 12. In 1981, the U.S. poultry industry filed a 301 petition challenging EC subsidies. The EC refused to negotiate and said the problem was Brazilian exports. The Brazilian claimed they deserved preferential treatment and developing country and said the EC was subsidizing its poultry more heavily.

a. Has the U.S. vigorously pursued this case? Have the subsidies continued?

[The petitioners say no to the first question, yes to the second].

b. Is there any reason why retaliation should not be mandatory in cases like this?

Answer. a. Following the September 1981 301 petition from the National Broiler Council, USTR initiated a GATT case under the Subsidies Code. During the GATT consultations, the case was expanded to include Brazil. Following several trilateral consultations, the talks reached an impasse in mid-1984, when the EC would not accept our proposal to eliminate or limit export subsidies in return for the U.S. agreeing to the same commitment.

Given the weak rules on export subsidies in the GATT, the

petitioner in the case and our Agricultural Technical Advisory Committee (ATAC) on poultry agreed that the best recourse was to subsidize our poultry exports. Since that agreement, several sales of U.S. poultry have been made with the assistance of the Export Enhancement Program.

Although data on the Brazilian subsidies was incomplete, we did conclude that the level of export subsidies under selected programs had fallen from 15 percent ad valorem in 1979 to about 5 percent in mid 1985. Mainly due to increased domestic demand, Brazilian broiler exports have declined since 1982.

b. Progress in this case was hampered by weak international rules on export subsidies. EC export subsidies on poultry were around 250 ECU per metric ton in 1979 and currently range from 370 to 550 ECU per metric ton. Nevertheless, we believe that mandatory retaliation would limit our flexibility to respond to unfair trade practices in the most effective way.

TWIN PLANTS

Question 13a. Did the new bilateral free trade discussions with Mexico address maquiladora operations?

Answer 13a. The United States and Mexico signed a bilateral framework agreement for trade and investment on November 6, 1987. That agreement established principles for the conduct of bilateral trade and investment relations. More importantly, that agreement established a consultative mechanism that can be used as a forum to negotiate the reduction of trade and investment barriers, or to attempt to resolve disputes, or to clarify misunderstandings and improve understanding. Under the framework agreement, the two governments have already negotiated an agreement which provided for an increase in the U.S. import quotas for Mexican steel; the elimination of Mexican quotas on beer, wine, distilled spirits; and the elimination of Mexican import licensing requirements for agricultural planting seeds, certain perfumes and lotions, and chocolate confectionary.

In February, 1988, the two governments held in-depth bilateral discussions in Mexico under the framework agreement on the topics of Mexican policy on foreign investment, copyright protection, patent and trademark protection, Mexico's computer sector development program, the bilateral subsidies agreement, agricultural trade problems, and the exchange of trade data. Another round of similar bilateral discussions are planned for mid-June in Washington.

There have been no discussions to date under the framework agreement with respect to negotiating a bilateral free trade arrangement or with respect to maquiladora operations.

Question 13b. Are you aware that maquiladoras or "twin-plants" provide 300,000 jobs in Mexico at 50 cents an hour and that less than 10% of all maquilas have a U.S. twin?

Answer 13b. The Administration is aware that as of April, 1988 there are 1,350 maquiladora plants with 327,000 direct

employees. About 90 percent of those plants are located along Mexico's northern border. Also, about 80 percent (90 percent of the non-Mexican owned maquilas) of the maquila operations are U.S. owned. Reportedly, the current hourly wage is about 52 cents per hour, or about 90 cents an hour including fringe benefits.

We recognize that the maquiladoras are an important source of employment and training in Mexico and the second largest source of foreign exchange. We are also aware that a study requested by the U.S. Department of Labor, prepared by Wharton Econometrics and released on May 19, found that the elimination of the maquiladora program would "result in an increase in U.S. imports from other countries, reduced total imports, increased U.S. prices, lowered U.S. output, and reduced U.S. employment."

CHINA TEXTILES

Question 14. As a result of our February meetings in the People's Republic of China were any agreements reached on Chinese purchases of U.S. goods?
[deficit with China - $2.1 billion 1986 - $3.5 billion in 1987]

Answer 14. During my visit to China in February, I did raise market access issues in general terms, but we did not make any agreements on the Chinese purchase of U.S. goods. As you know, we did sign the four-year textile agreement which restrains access for Chinese textiles to our market. I also signed two Trade Development Program (TDP) grant agreements for feasibility studies. More recently, Under Secretary of Commerce Moore signed an additional six TDP agreements this May at the conclusion of the U.S.-China Joint Commission on Commerce and Trade. The studies, funded by TDP, which is part of the International Cooperation and Development Agency, provide for studies by U.S. consultants on Chinese priority investment projects. These agreements are expected to lead to exports of U.S. goods and services when the projects are implemented.

TEXTILES

Question 1. In a speech in Canberra, Australia earlier this year, you touted President Reagan's veto of the Textile Bill and derailment of import relief for the domestic shoe industry as part of his "fight for free and open trade".

Since 1980, 1000 textile and apparel plants and 400 footwear factories have closed. Are these shut-downs a testimonial to the success of President Reagan's trade policy?

Answer 1. The Administration has opposed the textile bill because we feel it is an unnecessary piece of legislation with absolutely no economic justification. The textile and apparel industry is already the most protected industry in the United States and there is simply no need for further protection. In fact, the industry has done extremely well during the past several years.

On the textiles side in 1987, production increased 6 percent, while imports fell 0.3 percent. Capacity utilization rose to 92 percent. Average man-hours worked were up 5.6 percent, employment rose 3.5 percent, which represented an increase of 25,000 jobs, and the unemployment rate fell to 5.7 percent from 7.5 percent in 1986. U.S. mill consumption of cotton, wool and man-made fibers reached 26.7 million bales, an increase of 1.8 million bales above the previous high in 1986. Cotton consumption has increased more than 45 percent since 1985 alone, and is at the highest level since 1972. Finally, profits of textile companies increased 8.6 percent, after increasing by 67 percent in 1986.

On the apparel side, production increased 4.8 percent in 1987, while average man-hours worked rose 1.5 percent. Employment rose 0.9 percent, for an increase of more than 8,000 jobs, while the unemployment rate fell to 9.7 percent. Personal consumption expenditures on clothing increased 5.6 percent.

Although a number of footwear plants have in fact closed, the U.S. footwear industry has achieved some success internationally in certain niches of the market. As we predicted in 1985, the U.S. industry is adjusting it international competition by consolidating production lines, specializing in certain types of footwear and rounding out their product line with imports.

These are not signs of an ailing industry; rather, I believe these are indications that President Reagan's trade policy has been a success with regard to textiles and apparel.

Question 2. In testimony before the House Ways and Means Committee, Deputy USTR Michael Smith stated that the U.S. would seek an agreement with China that is "no more generous than those negotiated with Taiwan, Korea, or Hong Kong." The annual growth rate for textile imports from China is over 3 percent for those categories negotiated. Why was China treated more generously? I would remind you that the U.S. market continues to grow at only one percent a year.

Answer 2. I would like to remind you of my own testimony before the Senate Finance Committee in July of 1987, in which I was also asked about the prospects for the new agreement with China. At that time I stated "And I am not going to make any commitments as to how that negotiation will conclude, because we don't know that -- it takes two to tango in that process, as you well know."

The agreement which was concluded with China in December of 1987 limits that country's textile and apparel exports to the United States to an average annual increase of about 3 percent from 1988 to 1991. The new agreement also extends coverage to apparel made of silk blends and vegetable fibers other than cotton. The comprehensive nature of this agreement insures that we will not experience the type of import surges from China that we have had over the past several years. This agreement, along with the ones negotiated with Taiwan, Korea, Hong Kong and Japan in 1986, means that almost 50 percent of our total textile and apparel imports will grow at an average annual rate of about one and one-half percent during the next several years.

Given China's level of economic development, their tremendous capacity to produce textile products, and the importance of textile and apparel exports to their economy as compared to Taiwan, Korea, Hong Kong and Japan, the new agreement is certainly no more favorable than those negotiated with the other major suppliers.

Question 3. As you know, the Northern Marianas recently became a commonwealth and, as such, enjoys duty-free, quota-free access to the U.S. market. I am told that a large number of entrepreneurs from Korea and Taiwan have opened up garment-manufacturing plants on Saipan, using almost exclusively workers imported from China, Thailand and the Philippines.

The result has been a new wave of apparel into the U.S. market. Imports of garments from the Northern Marianas have grown from 63,646 dozen in 1985 to 672,234 dozen in the first nine months of 1987. This projects to nearly 900,000 dozen for 1987.

a. What can be done about this situation where foreign-owned plants using imported labor are making such inroads into our industry?

Answer 3. I understand the Government of the Northern Marianas has imposed a moratorium on new foreign investment in textile and apparel manufacturing plants and on the use of foreign workers in those plants.

TEXTILE/APPAREL

Question 1. Mr. Ambassador, I am unaware of any documented case wherein a textile-apparel shipping country has been penalized for fraudulent shipments to the United States. In your appearance before the Subcommittee on May 12, your office indicated that when fraud is found, penalties are assessed. Would you please supply for the record a list of such instances wherein quotas have been reduced as a result of fraudulent textile or apparel shipments to the United States?

Answer 1. There have been several instances where transshipments have been charged. For example, 65 million square yards is being charged over a period of three years to Japan's quota for lightweight polyester filament fabrics as a result of transshipments. In addition, as noted below, we are in the midst of an ongoing investigation on transshipment of Pakistani towels through third countries. We have made a first round of charges in that case as well.

Question 2. On the subject of fraud, could you please tell the Subcommittee what the United States is doing about the long-standing problem of transshipment of cotton terry towels to the United States from Pakistan via third countries? I understand that Pakistan has the largest towel quota of any country in the world, and I would like to know what efforts are underway to stop this effort to ship at levels even beyond the already-high quota.

Answer 2. As noted above, the U.S. Customs Service is

conducting an ongoing investigation into the transshipment of Pakistani towels through third countries. In addition to the work done on this case in the U.S., a team traveled to Pakistan to investigate the situation firsthand. We have raised the matter with the Government of Pakistan in consultations. Pakistani authorities are cooperating in the investigation and we have no evidence to suggest that the Government of Pakistan was in any way involved in the transshipments, which appear to have been carried out by private individuals. Although the investigation is continuing, we have informed the Government of Pakistan that in accordance with the bilateral agreement and the MFA, we will charge Pakistan's quota for those products which we have verified were of Pakistani origin but which entered the U.S. through third countries and were declared as products of those countries. To date, we have charged 1,388,508 towels against the 1988 quota for cotton terry towels (category 363) and 185,510 pounds against the 1988 quota for cotton dishtowels (category 369-D). In addition, we intend to raise this matter with the third countries involved during the next rounds of consultations with those countries.

Question 3. Your office indicated during your testimony that United States bilateral textile-apparel agreements do contain anti-fraud clauses. Could you please tell the Subcommittee (a) which of our agreements have such a clause, and (b) how these clauses compare with those which EEC countries have negotiated in their textile-apparel agreements with other countries. It would be helpful for the Subcommittee to have side-by-side comparisons of our anti-fraud clauses with EEC examples.

Answer 3. We have the right under both the MFA and our bilateral textile agreements to demand cooperation from our trading partners on fraud. Paragraph 16 of the 1986 protocol of extension of the MFA enables countries to take action to deal with problems of circumvention. Paragraph 16 states, in part, "It was further agreed that the appropriate administrative action referred to in Article 8, paragraph 2, should in principle, where evidence is available regarding the country of true origin and the circumstances of circumvention, include adjustment of charges to existing quotas to reflect the country of true origin..." The language contained in EEC agreements is basically a restatement of the language contained in the MFA and the protocol of extension.

CANADIAN FREE TRADE AGREEMENT

Question 1. You were quoted in the trade press as saying, "There is no question in my mind that Canada will be the principal beneficiary (of the FTA)". Is this an accurate analysis of the FTA? If so, why should the U.S. support it?

Answer 1. Under the U.S.-Canada Free Trade Agreement (FTA), Canada, as the smaller economy achieving improved access to a market ten times its size, certainly will reap significant economic benefits. However, the U.S. will also benefit. The following are highlights of provisions in the FTA of particular benefit to the U.S.:

- The elimination of all tariffs between the U.S. and Canada will provide significant benefits to the U.S. since Canadian tariffs are, on average, twice as high as comparable U.S. rates.
- Canada's screening of U.S. investment is significantly reduced.
- Nondiscriminatory access is gained for the U.S. to Canadian energy supplies.
- Establishes rules for bilateral trade in services.
- Removes discrimination faced by U.S. banks and insurance companies operating in Canada.
- Canadian barriers to U.S. exports of wine and distilled spirits are phased-out.
- Business travel between the two countries is facilitated.

Question 2. Critics of the FTA express concern that the failure to address Canadian natural resource subsidies within the FTA institutionalizes such practices. If U.S. negotiators could not remove such trade barriers within the framework of FTA negotiations, should this be called a free trade agreement? What progress on subsidies can we expect to see from future negotiations?

Answer 2. We recognize that the U.S.-Canada Free Trade Agreement (FTA) does not address all our bilateral problems. It is not a panacea for every ill. It will reduce, but not end, trade frictions. It will minimize, but not eliminate, trade distortions. However, it is a significant improvement over the status quo.

We did set out to negotiate greater discipline over government subsidies. We made some progress in the agricultural area, banning the use of export subsidies in trade between the two countries, including sales below full acquisition cost by government entities such as the Canadian Wheat Board. Export subsidies on non-agricultural products are already prohibited by existing international rules.

With respect to domestic subsidies -- those granted by governments whether the subsidized product is exported or consumed domestically -- we were unable to reach agreement on new rules within the relatively short period we had for these negotiations. This is a complex and controversial area. Clearly, such subsidies can distort international trade. On the other hand, governments normally have what they regard as legitimate domestic objectives for granting such subsidies, such as agricultural support, worker re-training, or research and development. Though we believe that in most areas Canada uses domestic subsidies more extensively than the United States, we have our own points of sensitivity. For example, state governors were extremely reluctant to accept disciplines against investment incentives for new industries. Many subsidies in both countries (e.g. agriculture) must be dealt with on a multilateral basis: bilateral solutions would be inappropriate, and sometimes

disadvantageous to the United States and Canada vis-a-vis the rest of the world. For those where bilateral solutions might have been feasible, we were not satisfied with the Canadian offer. Canada did indicate a willingness to discipline many of its domestic subsidies, but only in exchange for major relief from our countervailing duty law. That was a trade-off that we were just not prepared to make.

That does not mean we have given up on the worthy objective of achieving greater discipline over domestic subsidies.

The FTA provides for the establishment of a working group which will seek over the next five to seven years to develop more effective rules and disciplines regarding subsidies. We have also retained the right to use our countervailing duty law to offset injurious Canadian subsidies. In the FTA, we have in no way increased our vulnerability to Canadian subsidies, nor have we in any sense "institutionalized" those subsidies. To the contrary, we have a commitment to continue to work on this issue bilaterally over the next five years, a commitment that did not previously exist. In addition, we'll be working on improving multilateral disciplines over subsidies in the Uruguay Round, an exercise that is scheduled to conclude in three years. Far from institutionalizing Canadian subsidies, approval of the FTA offers the best opportunity to negotiate greater bilateral discipline, and we still have the full protection of our countervailing duty law while we negotiate.

Question 3. What do you think of the "fast-track" procedure used for the FTA? Do you think that there was sufficient consultation in the negotiations with the business community? If so, why does the FTA now face such opposition?

Answer 3. We believe that the "fast-track" procedures of the Trade Act of 1974 have worked quite well for the FTA negotiations. During the two years of preparations and negotiations, we consulted extensively with both the business community and Congress. Our consultations with the business community took place through both the formal private sector advisory process as well as periodic briefings of key business groups.

I believe it is incorrect to imply that the FTA faces significant opposition. There is widespread support for the Agreement in the business community, with leading business groups such as the U.S. Chamber of Commerce, the National Association of Manufacturers, and the Business Roundtable strongly in support of the FTA. Attached is a listing of over 500 companies and organizations which have joined the American Coalition for Trade Expansion with Canada (ACTE/CAN) in support of the Agreement. (See attachment Exhibit B)

(ATTACHMENT EXHIBIT B)

ACTE/CAN MEMBERS
as of April 29, 1988

ABC Custom Cedar Homes, Inc.	Sonoma, CA
ADC Telecommunications	Bloomington, MN
AT&T	New York, NY
A-C Brake Co., Inc.	Louisville, KY
A.T. Cross Company	Lincoln, RI
ADAPSO	Arlington, VA
ALCOA	Pittsburgh, PA
AMCA International Corporation	Hanover, NH
Aaonton Group, Inc.	Plano, TX
Action Associates	Bloomington, MN
Aetna Life and Casualty Company	Hartford, CT
Aerospace Industries Association of America, Inc.	Washington, DC
Afro/Hispanic-American Chambers of Commerce	Bossier City, LA
Air Conditioning and Refrigeration Institute	Arlington, VA
Air Conditioning Contractors of America	Washington, DC
Alaska Quality Control & Technical Services, Ltd.	Anchorage, AK
Albert Seisler Machine Corporation	Mohnton, PA
Alderfer & Herm	Denver, CO
Allied-Signal International, Inc.	Morristown, NJ
Allis - Chalmers Corporation	West Allis, WI
Almerica Overseas, Inc.	Destin, FL
Alpha Research, Inc.	Glendale, WI
Alumax, Inc.	San Mateo, CA
Amana Refrigeration, Inc.	Amana, IA
Amatos, Inc.	Middletown, CT
Ambler Organizational Consultants, Inc.	Cherry Hill, NJ
Amerace Corporation	Hackettstown, NJ
Amerex Corporation	Trussville, AL
American Association of Exporters & Importers	New York, NY
American Association of Meat Processors	Elizabethtown, PA
American Business Conference	Washington, DC
American Cast Metals Association	Des Plaines, IL
American Council of Independent Laboratories	Washington, DC
American Electronics Association	Washington, DC
American Express Company	New York, NY
American Federation of Small Business	Chicago, IL
American Frozen Food Institute	McLean, VA
American Furniture Manufacturers Association	Washington, DC
American Gas Association	Arlington, VA
American Hotel and Motel Association	Washington, DC
American Institute of Marine Underwriters	New York, NY
American Institute of Small Business	Minneapolis, MN
American Meat Institute	Rosslyn, VA
American Newspaper Publishers Association	Washington, DC
American Paper Institute	New York, NY
American Retail Federation	Washington, DC
American Street Corridor Business Association	Philadelphia, PA
American Trucking Association	Alexandria, VA
Calvert Gallery	Washington, DC
Carbis Walker & Associates	Butler, PA
Cargill, Incorporated	Minneapolis, MN
Carlton Group	Richmond, VA
Carolina Freight Carriers Corporation	Cherryville, NC
Cass County Abstract Company	Fargo, ND
Castite Systems, Inc.	Cleveland, OH
Caterpillar, Inc.	Peoria, IL
Champion International Corporation	Stamford, CT
Charles Beck Machine Corporation	King of Prussia, PA
Charles F. McAfee Architects Engineer Planners	Wichita, KS
Charter Medical Corporation	Macon, GA
Chattahoochee Business Group	Marietta, GA
Chicago Barter Corporation	Lombard, IL
Chicone Groves	Orlando, FL
Christy's	Ellwood City, PA
Chrysler Corporation	Highland Park, MI
Citicorp	New York, NY

Citizens for a Sound Economy	Washington, DC
Citizens for the U.S.-Canada Free Trade Pact	Washington, DC
Clark Seals, Ltd.	Tulsa, OK
Claseman Management Services	St. Paul, MN
Climatic Control Company, Inc.	Milwaukee, WI
Coalition of Service Industries, Inc.	Washington, DC
Coca Cola Company	Atlanta, GA
Colborn's	Billings, MT
Coleco Industries, Inc.	West Hartford, CT
Collectors Guild Ltd.	Wilmington, NC
Columbia Chocolates By Mordens	Astoria, OR
Comdisco, Inc.	Rosemont, IL
Commercial Design Consultants	Milwaukee, WI
Committee for Small Business Exports	Aspen, CO
Comp-U-Card International, Inc.	Stamford, CT
Competition Cams, Inc.	Memphis, TN
Competitive Enterprise Institute	Washington, DC
Computer & Business Equipment Manufacturers Association	Washington, DC
Computer & Communications Industry Association	Washington, DC
Conco Systems, Inc.	Verona, PA
Concord Engineering, Inc.	Richmond, CA
Concord, Inc.	Fargo, ND
Consolidated Freightways, Inc.	Menlo Park, CA
Contact Systems Corporation	New York, NY
Control Data Corporation	Minneapolis, MN
Cooper Industries, Inc.	Houston, TX
Coopers & Lybrand	New York, NY
Copyright Clearance Center	Salem, MA
Creative Management Concepts	Reading, PA
Curtis Circulation Company	Hackensack, NJ
Custom Engineering, Inc.	Englewood, CO
D&M Consulting & Brokerage, Inc.	Marshfield, WI
D-M-E Company	Madison Heights, MI
Dawg Luvers & Company	Jesup, GA
Deering Lumber, Inc.	Biddeford, ME
General Public Utilities Corporation	Parsippany, NJ
Georgia-Pacific Corporation	Atlanta, GA
Gerber Industries, Inc.	St. Peters, MO
Glowacki Everhardt & Association, Inc.	Toledo, OH
Goldman Sachs	New York, NY
Goodyear Tire & Rubber Company	Akron, OH
Gorman-Rupp Company	Mansfield, OH
Grand Trunk Western	Detroit, MI
Greater Newark Chamber of Commerce	Newark, NJ
Gregory Manufacturing Co., Inc.	Jackson, MS
Griffin Agency	Prospect, PA
Grit Publishing Company	Williamsport, PA
Grumman Corporation	Bethpage, NY
HMA International Business Development, Ltd.	Greensboro, NC
Half Price Books, Inc.	Dallas, TX
Hamilton Beach, Inc.	Waterbury, CT
Harodite Finishing Co., Inc.	North Dighton, MA
Hartz Mountain Corporation	Harrison, NJ
Heat - Timer Corporation	Fairfield, NJ
Helene Curtis Industries	Chicago, IL
Hercules, Inc.	Wilmington, DE
Hercules Engines, Inc.	Canton, OH
Herrmidifier Company, Inc.	Lancaster, PA
Hevi-Haul International Limited	Butler, WI
Hexagon Architecture Group Limited	Wyncote, PA
High-Tech International	Beltsville, MD
Hill & Associates	Madison, WI
Hoffman Air & Filtration Systems	East Syracuse, NY
Holiday Corporation	Memphis, TN
Holloman Child Development Centers	Hampton, VA
Honda North America	Torrance, CA
Honeywell, Inc.	Minneapolis, MN
Hoover Company	North Canton, OH
Horizon Resources Corporation	York, PA
Hotwatt, Inc.	Danvers, MA
Hunt Tractor, Inc.	Louisville, KY
ITT Corporation	New York, NY

ITBR, Inc.	Austin, TX
Illinois Lumber & Material Dealers Assoc.	Springfield, IL
Illinois Small Businessmen's Assoc.	Chicago, IL
Image Express	Southfield, MI
Imperial Schrade Corporation	New York, NY
Impressive Advance & Litho, Inc.	Waynesboro, VA
Incom International, Inc.	Pittsburgh, PA
Independent Bakers Association	Washington, DC
Industrial Commission of Arizona	Mesa, AZ
Industrial Heating Equipment Association	Arlington, VA
Informerific/Hexter & Associates	Cleveland, OH
Ingersoll-Rand Company	Woodcliff Lake, NJ
Intel Corporation	Santa Clara, CA
International Business Aviation Council, Ltd.	Washington, DC
International Business Machines Corp.	Armonk, NY
International Data Corporation	McLean, VA
International Franchise Association	Washington, DC
Marriott Corporation	Washington, DC
Marsh & McLennan, Inc.	New York, NY
Marshall & Associates	Topsfield, MA
Mary Kay Cosmetics	Dallas, TX
Mattel, Inc.	Hawthorne, CA
Mayflower Transit, Inc.	Indianapolis, IN
Maytag Corporation	Newton, IA
McIntosh, Inc.	Norfolk, NE
McLaurin Parking Company	Raleigh, NC
McMinnville City Sanitary Service, Inc.	McMinnville, OR
Measurex Corporation	Cupertino, CA
Mel Boldt & Association	Mt. Prospect, IL
Mentholatum Company	Buffalo, NY
Merck & Co., Inc.	Rahway, NJ
Metal Treating Institute	Jacksonville Beach, FL
Metropolitan Life Insurance Company	New York, NY
Mid-Continent Cold Storage Company	Omaha, NE
Milbar Corporation	Chagrin Falls, OH
Miller Picking Corporation	Johnsontown, PA
Minnesota Mining & Manufacturing Company (3M)	St. Paul, MN
Mobil Oil Corporation	New York, NY
MonArk Boat Company	Monticello, AR
Monsanto Company	St. Louis, MO
Morgan Guarantee	New York, NY
Morton Buildings, Inc.	Morton, IL
Mosbacher Energy Company	Houston, TX
Moser Bag & Paper Company	Cleveland, OH
Mosler International	Hamilton, OH
Motor Vehicle Manufacturers Association	Detroit, MI
Murphy Oil Corporation	El Dorado, AR
N. J. Chapter - National Association of Women Business Owners	Cherry Hill, NJ
NVRyan	McLean, VA
Nalco Chemical Company	Naperville, IL
National American Wholesale Grocers Association	Falls Church, VA
National Association of Beverage Importers, Inc.	Washington, DC
National Association of Home Builders	Washington, DC
National Association of Manufacturers	Washington, DC
National Association of Photographic Manufacturers	Harrison, NY
National Association of Printing Ink Manufacturers	Harrison, NY
National Association of Women Business Owners	Chicago, IL
National Federation of Independent Business	Washington, DC
National Foreign Trade Council	New York, NY
National Frame Builders Association	Kansas, City, MO
National Grange	Washington, DC
National Gypsum Company	Dallas, TX
National Hispanic Business Association	Chamblee, GA
National Lumber & Building Materials Dealers Association	Washington, DC
National Machine Tool Builders Association	McLean, VA

Pre-Paid Legal Services	Ada, OK
Precision Twist Drill Company	Crystal Lake, IL
Price Company	San Diego, CA
Principal Financial Group	Des Moines, IA
Prinova Co., Inc.	San Francisco, CA
Printing Industries of America	Arlington, VA
Procter & Gamble	Cincinnati, OH
Product Development Corporation	Little Rock, AR
Professional Service Corporation	Green Bay, WI
Professional Wealth Management, Inc.	Asheville, NC
Professional Women in Construction & Allied Industries	White Plains, NY
Progressive Management Enterprises, Ltd.	St. Louis, MO
Pulp & Paper Machinery Manufacturers' Association	Washington, DC
Queen Carpet Corporation	Dalton, GA
Queen City Industries, Inc.	Piqua, OH
Quick, Finan & Associates, Inc.	Washington, DC
Quill Corporation	Lincolnshire, IL
Quillen Group	Groton, CT
R. R. Accessories, Inc.	Boston, MA
R. R. Donnelley & Sons Company	Chicago, IL
RJR Nabisco	Atlanta, GA
Radio KDNO	Delano, CA
Ramada, Inc.	Phoenix, AZ
Raytheon Company	Lexington, MA
Recognition Equipment, Inc.	Dallas, TX
Recon/Optical, Inc.	Barrington, IL
Rexnord, Inc.	Brookfield, WI
Rheem Manufacturing Company	New York, NY
Ridenour & Associates	Chicago, IL
Riordan, Crivello, Carlson & Menthkowski	Milwaukee, WI
Roll-o-Matic, Inc.	Kansas City, MO
Rooney, Plotkin & Willey	Providence, RI
Rorer International Pharmaceuticals	Fort Washington, PA
Rotron Engineering Company, Inc.	Woburn, MA
Rubber Manufacturers Association	Washington, DC
Rudolph Beaver, Inc.	Waltham, MA
Rural Gravuce Services, Inc.	Madison, WI
Russ Berrie and Company, Inc.	Oakland, NJ
S. C. Johnson & Son, Inc.	Racine, WI
SNC Manufacturing Company	Oshkosh, WI
Sabre Yachts	South Casco, ME
Safeway Stores, Inc.	Oakland, CA
Samsonite Corporation	Denver, CO
Sandmeyer Steel Company	Philadelphia, PA
Sargent-Welch Scientific Company	Skokie, IL
Scientific-Atlanta, Inc.	Atlanta, GA
Scott Paper Company	Philadelphia, PA
Sears, Roebuck and Company	Chicago, IL
Shaw Mudge & Company	Stamford, CT
Shell Oil Company	Houston, TX
Sheridan & Fritz, P.C.	Harrisburg, PA
Siliconix, Inc.	Santa Clara, CA
Triangle Research Development Corp.	Research Triangle Park, NC
Trinity Industries, Inc.	Dallas, TX
Trouble Shooters, Inc.	Omaha, NE
Truck Trailer Manufacturers Association	Alexandria, VA
Trucking Services, Inc.	Dearborn Heights, MI
U.S. Axle, Inc.	Pottstown, PA
U.S. Bearings & Drives of CA, Inc.	Santa Clara, CA
U.S. Chamber of Commerce	Washington, DC
U.S. Council for International Business	Washington, DC
USG Corporation	Chicago, IL
Ultrasystems, Inc.	Irvine, CA
Unilever United States, Inc.	New York, NY
United Fresh Fruit & Vegetable Association	Alexandria, VA
United Illuminating Company	New Haven, CT
United Industries, Inc.	Wichita, KS
Upjohn Company	Kalamazoo, MI
Valspar Corporation	Minneapolis, MN

Vanport Manufacturing, Inc.	Boring, OR
Village Green	Midland, MI
Virco Manufacturing Corporation	Torrance, CA
Vocational Rehabilitation Associates, Inc.	Eugene, OR
W.H. Brady Company	Milwaukee, WI
W.R. Grace & Company	New York, NY
WIS, Inc.	Toledo, OH
Wainoco Oil Corporation	Houston, TX
Waldorf Corporation	St. Paul, MN
Wayer Corporation	Landover, MD
Western Publishing Company, Inc.	Racine, WI
Weyerhaeuser Company	Tacoma, WA
Whale Scientific, Inc.	Commerce City, CO
Whirlpool Corporation	Benton Harbor, MI
White Plains Iron, Inc.	New York, NY
Wholesale Florists & Florist Suppliers of America	Arlington, VA
Will-Burt Company	Orrville, OH
William A. Price & Associates	Wheaton, IL
William H. Taylor & Company, Inc.	Allentown, PA
Wingspread Corporation	New York, NY
Women Entrepreneurs	Lincolnwood, IL
Women Featherbone Company	Gainesville, GA
Woodhead Industries, Inc.	Northbrook, IL
World Trade Counselors	Estes Park, CO
Zimpro Passavant, Inc.	Rothschild, WI
ZinYeast, Inc.	Marshfield, WI

CANADIAN FREE TRADE AGREEMENT

Question 4. The Administration has endorsed -- for Canada in the new FTA -- a foreign investment review mechanism that not only requires disclosure, but also permits the government to block investments over a certain size and investments of any size in a variety of industries. Why does the Administration support this practice for Canada, but lobbies against anything like this for the U.S. in the Congress?

Answer 4. We have not "endorsed" Canada's foreign review mechanism under the FTA. The FTA significantly liberalizes the existing Canadian investment regime and ensures that Canada will not revert to the more restrictive foreign investment policies of the late 1970's and early 1980's. We would have preferred a total elimination of Canada's screening to mirror our practice, but that was not feasible.

U.S. policy, on the other hand, is to welcome foreign investment that is determined by market forces. We want the benefits that foreign direct investment brings: jobs, output, technology, managerial skills, etc.

GATT NEW ROUND

Question 1. One of the major objectives of the New Uruguay Round is to create free trade in services. GATT has never covered trade in services. Considering GATT's record of freer trade in services, what will the U.S. have to give up to achieve this?

Answer 1. The United States is optimistic that it will be possible to negotiate a framework understanding governing trade in services by the scheduled conclusion of the Uruguay Round in 1990. Many developed and developing countries have come to understand that it is in their own national interest to open their service sector to international trade, that such steps will reap dividends throughout their economy.

Most service industries in the United States are quite accessible to foreign providers either through import or commercial presence in this country. Therefore, for the most part, we do not expect to be presented with requests to give up or alter any significant elements of currently-existing domestic regulations in order to achieve our Uruguay Round goals in services.

Question 2. U.S. negotiators have had preliminary meetings concerning the Uruguay Round of trade negotiations. I have been advised in the past that "tariffs" will not be an issue in these talks.

a. Will textile and apparel tariffs be on the agenda?

b. What is your position, should the developing countries ask for tariff reductions in exchange for service industry access?

c. What role will the GATT Textile Committee play in the negotiations?

d. What is the U.S. position concerning a renewal of the Multi-Fiber Arrangement?

Answer 2.

a. Textile and apparel tariffs will be on the agenda in the context of the tariff negotiating group. The U.S. position is to handle tariffs on a request/offer basis.

b. I do not believe it is proper to speculate on a hypothetical situation. As noted in (a), we have taken the position that tariffs should be handled on a request/offer basis.

c. The GATT Textiles Committee is not now directly engaged in Uruguay Round negotiations. The Textiles Committee is the plenary body for the Multifiber Arrangement.

d. It is the position of this Administration that we support the continuation of the MFA regime. I would note, however, that the current MFA runs through July 31, 1991 and, as such, I am not in a position to comment on the position of the Administration which will be in office at that time.

Question 3. When you appeared before this subcommittee on February 26, 1987 you asked for $300,000 to upgrade your computer capacity, bringing it to the level required to meet the demands of the Uruguay Round. Have you done that?

Answer 3. We accomplished most of the effort. As we pointed out in the testimony for the hearing, we completed the acquisition of new mini-computers and related equipment, and successfully installed them in a new facility in the Winder building. The old facility had been in commercially leased space nearby. This project, despite a challenging construction phase, was completed successfully this past February. In doing so, we tripled our storage capacity for text and data. We reduced the age of our computers from an average seven years to three months. We eliminated the need to ration access of our terminals to the computers during peak load times. We also have a secure computer which will service the entire trade community-- starting this summer.

The second phase planned for FY 1989 ties the Geneva office to Washington in a more secure and timely manner.

Question 4. Since the last Round of multilateral negotiations-The Tokyo Round-- the U.S. trade deficit has worsened from -$31 billion to -$171 billion. What do you think the results of the new Round will do to the U.S. trade deficit?

Answer 4. Previous trade negotiations are not the cause of our trade deficit. These causes lie elsewhere. Similarly we do not expect the results of the Uruguay Round to have significant effects on the U.S. trade balance. To the extent that we are successful in reducing barriers to agricultural trade (an area where we are highly competitive) and to the extent we can reduce the trade losses from piracy of intellectual property rights (an area where we stand to gain because of the high IP content of US products)

we should benefit. Also, if we are successful in achieving liberalization in services, U.S. service exports should benefit. It is not possible, however, to quantify such potential benefits at this time.

GRADUATION FROM GSP

Question. The U.S. has announced that it will graduate South Korea, Hong Kong, Taiwan and Singapore from the Generalized System of Preferences program at the end of 1988. What was the criteria for this decision? What other countries are approaching a development stage that would warrant "graduation" from the GSP program? Could you provide an estimate of the tariff revenue benefit of the decision? Could you provide an estimate of how the decision might improve the U.S. balance of trade?

Answer. The Administration examined a broad range of economic and trade criteria before the President made the decision on January 29 to graduate Hong Kong, Singapore, Korea and Taiwan from the GSP program. These included per-capita GNP, economic growth rates over the last twenty years, usage of the GSP program and the share of manufactures in exports to the U.S.

During the course of the five month review of this issue, the Administration examined all the larger users of the GSP program in light of the criteria mentioned above. The Administration concluded that the four Asian NICs that the President eventually decided to graduate had clearly economically outperformed by a wide margin the other beneficiary countries that were examined. The Administration has no plans at this time to consider additional countries for graduation on the basis of their economic development or trade competitiveness.

Assuming a significant reduction in imports of formerly GSP-eligible items from the four Asian NIC's, the tariff benefit of the President's decision is estimated at $450 to $500 million (based on 1986 import data).

The decision is expected to have little effect on the U.S. balance of trade, either on a bilateral basis with the four Asian beneficiaries or globally. The decision was made because the GSP is a preference program designed to assist less competitive developing countries that need help in gaining access to the U.S. market for the purposes of increasing their economic growth. These four are deemed to no longer need special help. Furthermore, the average tariff on GSP products is about 4 percent. Given the relatively small tariff preference margin, the likely effect on the ability of these four beneficiaries to export to the U.S. will be minimal.

TRADE ACT IMPACT

Question. On page 4, you indicate that legislation pending before the Congress could have a significant resource impact on USTR. Could you be more specific about the changes and resource impact you anticipate?

Answer. Much of the impact will depend on what happens over the next few years, if the bill is enacted into law. However, some impacts are evident.

The number of studies and reports required by the trade bill would severely impact our ability to accomplish our mission. Our initial, rough estimates suggest that as many as 25 staff man-years could be consumed in doing the required studies -- a potential cost of over $2 million.

Other line responsibilities of USTR are administration of Section 301 of the Trade Act of 1974, and coordination of the Presidential review phase of import relief cases under sections 201 and 406 of the Trade Act of 1974 and intellectual property cases under section 337 of the Tariff Act of 1930. To the extent that the trade bill changes result in an increase in cases that come to USTR under these statutes, the USTR workload will increase accordingly.

301 ACTION

Question. Last year Ambassador Yeutter stated USTR has taken a more active role in attacking unfair foreign trade practices by means of Section 301 Actions. Please provide an update of progress made in this area.

Answer. See attachment Exhibit C

(ATTACHMENT EXHIBIT C)

REPORT TO CONGRESS ON SECTION 301 DEVELOPMENTS

REQUIREL BY SECTION 306 OF THE TRADE ACT OF 1974

(JULY-DECEMBER 1987)

I. Cases in Which the President Acted During This Period

A. Brazil Informatics (301-49)

At the President's direction, on September 16, 1986, the Trade Representative self-initiated an investigation of the Government of Brazil's informatics policy, designed to promote a national informatics (computer and other equipment based on digital technology) industry. Brazil's informatics law restricts foreign investment in this sector and imports of these products into Brazil. In addition, Brazil provides insufficient protection for related intellectual property rights, especially computer software.

On October 6, 1986, the President determined under Section 301 that Brazil's informatics policy is unreasonable and a burden or restriction on U.S. commerce. He directed the Trade Representative to continue negotiations, and deferred a final decision as to the appropriate U.S. response to Brazil until December 31 to allow time for such negotiations. In the interim, however, he directed the Trade Representative to notify the General Agreement on Tariffs and Trade (GATT) of the United States intent under GATT Article XVIII to suspend the application of U.S. tariff concessions to imports from Brazil (in order to compensate for the annual loss in U.S. sales opportunities in Brazil due to the informatics policy), and to implement such suspension when appropriate.

On November 28, 1986, the Trade Representative advised the GATT Secretariat and the delegation of Brazil of its intention to suspend the application of compensatory U.S. tariff concessions to Brazil, as instructed by the President.

On December 30, 1986, the President decided to: (1) suspend that part of the investigation dealing with Brazilian administrative procedures; and (2) direct the Trade Representative to conduct further negotiations with Brazil toward achieving adequate and effective protection for intellectual property rights, particularly for computer software, and the elimination of barriers to U.S. investment in the Brazilian informatics sector. In his determination, the President explained that the Government of Brazil has undertaken administrative reforms that, if fully implemented, should reduce the adverse effect on United States commerce of the Brazilian informatics policy. Brazil has established an ad hoc group to review specific company complaints regarding the application of the informatics law to U.S. trade and investment. It has announced certain other reforms designed to speed and simplify the process of obtaining necessary licenses and to create an appeals process. Finally, it has defined and narrowed the scope of its import restrictions (although they remain subject to periodic revision). The President concluded that these developments warranted suspending, but not terminating, that part of the investigation. He stated that if these improvements are properly implemented and have the expected effect of reducing the burden on U.S. commerce, then that part of the investigation could be terminated.

The President further determined, however, that to date insufficient progress has been made in negotiations with Brazil to eliminate restrictions on U.S. investment in the informatics sector and to obtain adequate protection of intellectual property rights. He concluded that a final negotiating effort was appropriate, and declared that he would determine the response of the United States to Brazil's informatics policy if no acceptable resolution were forthcoming within six months.

On February 10, 1987, USTR invited written comments and announced that it would hold public hearings on March 12 on Brazil's inadequate protection of intellectual property and its proposed commercialization legislation for computer software and investment restrictions in the informatics sector. Specifically, USTR requested comments concerning:

(1) Brazil's lack of adequate copyright protection for computer software, as well as Brazil's proposed copyright and commercialization legislation;

(2) barriers on U.S. investment in Brazil's informatics sector, including discriminatory incentives provided by the Government of Brazil and restrictions on: the formation of joint ventures, the upgrading and modernization of existing facilities, the products that can be manufactured and/or sold in Brazil from those facilities, and the treatment of royalties, trade secrets and technology transfer;

(3) the impact of these investment measures on the trade flows of the company, including from Brazilian operations to third markets, within Brazil, and between Brazil and the U.S.; and

(4) the extent to which Brazil's overall investment climate is affected by its informatics policies, and the treatment of U.S. investors compared to other foreign and domestic companies in Brazil.

At the public hearings held on March 12, comments were received in writing and/or orally from numerous witnesses.

On June 30, 1987, the President suspended the intellectual property portion of this investigation. He noted that the Government of Brazil's lower house had passed legislation that would provide adequate copyright protection to computer software. Although enactment of that legislation still required favorable action by the upper house, the President concluded that progress to that point and the likely enactment of legislation adequately protecting computer software from piracy warranted suspension of the intellectual property portion of the investigation. He asked the Trade Representative to continue to monitor developments in this area, with a view to terminating or reopening this part of the investigation as appropriate based on developments.

Regarding the Government of Brazil's restrictions on U.S. investment in the informatics sector, the President noted Brazil's request to judge its performance in this area based upon a favorable "track record" in approving U.S. investment proposals. He directed the Trade Representative to pursue this part of the Section 301 investigation as appropriate.

Regarding the suspended parts of the investigation concerning Brazil's administrative procedures and "market reserve" practices, the President noted that the Trade Representative will continue to monitor developments in these areas, with a view to terminating or reopening these parts of the investigation as appropriate based on developments.

On November 13, 1987, the President announced his intention to prohibit Brazilian exports to the U.S. having a value comparable to certain lost sales opportunities for U.S. companies in Brazil (estimated at about $105 million). He also announced his intention to prohibit imports from Brazil of certain computer products. These actions were in response to the following Brazilian actions.

In September 1987, the Brazilian Secretariat for Informatics (SEI) rejected agreements negotiated between: (1) a U.S. company that holds the copyright on the world's leading computer software operating system for personal computers, and (2) six Brazilian informatics companies seeking a license to use that software system. SEI rejected those licensing agreements on the basis of a determination that a Brazilian-made "functional equivalent" to the operating system exists for use by Brazilian informatics companies. The SEI determination contravened understandings reached between the U.S. Government and the Government of Brazil that provided a basis for the President's June 30, 1987 decision to suspend the intellectual property portion of the investigation. Specifically, SEI's decision violated understandings that SEI's interpretation of "functionally equivalent" software would be objective. It established a precedent that effectively banned U.S. companies from the Brazilian software market. Except for mainframe and similar computers, U.S. companies are already prohibited from participating in the Brazilian hardware market.

On December 17 and 18, 1987, the interagency Section 301 Committee held public hearings on listed products being considered for increased duties or other import restrictions. Follow-through action is scheduled for early in 1988.

B. EC Pasta (301-25)

The National Pasta Association filed a petition under Section 301 on October 16, 1981, alleging that EC export subsidies on pasta products violate Article 9 of the Subsidies Code, which prohibits export subsidies on non-primary products. Although the Article 9 allegations were dispositive of the case, the petition also alleged that EC export subsidies threaten serious prejudice to U.S. pasta manufacturers contrary to Article 8 of the Subsidies Code, by displacing U.S. manufacturers in their home markets.

Under its Council Regulations on the Common Organization of the Market in Cereals (Council Regulation No. 2727/75), the EC provides that certain EC cereal products, after being transformed into processed goods, may be eligible for an export refund. The refund on the processed product is intended to cover the difference between quotations or prices of the cereals on the world market and prices in the Community.

We initiated an investigation on November 30, 1981, and requested consultations with the EC under the Subsidies Code on December 2, 1981. The time period for consultations in this case was 30 days. However, the EC did not even respond to our request until January 25, 1982--almost eight weeks after our request. In its response, the EC declined to hold formal consultations, and suggested instead that the Subsidies Code Committee be convened to discuss Article 9 of the Code. On March 3, 1982, the U.S. referred the matter to the Subsidies Code Committee for conciliation. When conciliation failed, we requested a panel on April 7. The panel met on July 14 and October 8, 1982, and March 29, 1983.

The Trade Representative submitted a recommendation to the President regarding the pasta petition on June 30, 1982. On July 21, 1982, the President directed USTR to complete the dispute settlement process expeditiously.

The panel submitted its report to the Subsidies Code Committee on

May 19, 1983. The panel concluded (with one member dissenting) that the EC subsidies were inconsistent with the EC's obligations under Article 9 of the Code. The Subsidies Code Committee considered the report on June 9 and November 17, 1983, at which time the U.S. urged its adoption. The Committee has not yet made a decision, because the EC and certain other European countries have blocked adoption of the report.

In the context of our dispute with the EC over its discriminatory citrus tariffs that deny fair access for U.S. citrus exports to the EC market (see a subsequent section of this report on the citrus case), on June 21, 1985, the President proclaimed that effective July 6, we would increase our tariffs on imports from the EC of pasta products not containing egg to 40 percent ad valorem, and on pasta products containing egg to 25 percent ad valorem. The EC indicated that it would counterretaliate through increased tariffs on imports of lemons and walnuts from the U.S.

Both sides agreed to rescind the tariff increases in response to the EC's offer to reduce its pasta subsidy and to increase access to its market for U.S. citrus exports by October 31. The increased U.S. duties on EC pasta imports were suspended through a Presidential proclamation of August 15, 1985, in which the President authorized the Trade Representative to suspend, modify, or terminate the increase in EC pasta duties if justified by actions taken by the EC toward a mutually acceptable resolution of the citrus dispute.

Because the EC did not increase such access as promised, on November 1, the Trade Representative imposed substantially higher duties on pasta products imported from the EC. The EC responded by increasing its tariffs on imports from the U.S. of lemons and walnuts.

In the context of a satisfactory settlement of the EC citrus case (described below) in August 1986, the United States and EC agreed on the elimination by the U.S. of the increased duties on EC pasta, and by the EC of retaliatory increased duties on U.S. lemons and walnuts. To fulfill this agreement and pursuant to authority delegated to him by the President in August 1985, effective August 21, 1986, the Trade Representative determined that the increased pasta duties were no longer justified and terminated them.

Also in the context of the citrus case, the U.S. and EC agreed to proceed in good faith to seek a prompt resolution of the pasta case.

On September 15, 1987, the U.S. and the EC settled this dispute through an agreement requiring the EC to reduce its subsidy for pasta exports to the U.S., initially by 27.5 percent. As a result of such reduction, it is intended that 50 percent of the exports of EC pasta to the U.S. will not be subsidized. The agreement provides for further reductions in the future of the level of export subsidies if this 50 percent level for unsubsidized EC exports to the U.S. has not been reached. Conversely, if the 50 percent level is exceeded, the EC would be permitted to increase proportionately the level of its export subsidy.

On September 30, the President proclaimed that the Customs Service shall exclude from entry into the U.S. any EC pasta unless accompanied by appropriate documentation determined by USTR to be necessary to enforce the agreement. The President determined to take such action under Section 301 to implement the September 15 agreement with the EC.

The agreement provides for periodic consultations on the operation of the agreement. The first consultation was held on December 9.

C. EC Hormone Directive (301-62)

On December 24, 1987, on his own motion, the President proclaimed (but suspended) increased duties on certain products of the EC, in response to the implementation scheduled for January 1, 1988, of its Animal Hormone Directive. This directive bans the importation into EC member countries of any meat produced from animals treated with growth hormones. The U.S. exported about $100 million in red meat (mostly offal) products to the EC in 1986.

The U.S. maintains that valid scientific evidence does not justify such a ban, and that therefore it is a disguised restriction on international trade. We sought to pursue this dispute under the GATT Standards Code (formally called the Agreement on Technical Barriers to Trade). However, the EC blocked the formation of a technical experts group, a necessary predicate to the establishment of a panel to recommend a decision to the Standards Code Committee.

In response, we recommended that the President take action, on his own motion, under Section 301 in response to the EC ban. However, the EC approved a regulation requiring individual member states to continue their current import regimes for hormone-treated meat for 12 months. Based on these developments, the President suspended the increased duties he proclaimed, and delegated to the Trade Representative authority to modify, suspend or terminate the increased duties, including re-imposition of the currently suspended duties. These actions provide an opportunity to, and increase the likelihood that we can, reach a resolution with the EC in 1988, without adverse effects in the interim on U.S. meat exports to the EC.

II. Pending Cases in Which the Office of the U.S. Trade Representative Acted Further

A. EC Citrus (301-11)

On November 12, 1976, the Florida Citrus Commission filed a petition under Section 301 alleging that preferential import duties established by the EC for imports of orange and grapefruit juices from certain Mediterranean countries had an adverse effect upon U.S. citrus juice producers. The California-Arizona Citrus League, the Texas Citrus Mutual, and the Texas Citrus Exchange filed a petition on the same day, making similar allegations but covering a wider range of citrus products. With the agreement of all petitioners, on November 30, 1976, we initiated one investigation covering tariff preferences on fresh oranges, tangerines, lemons and grapefruit; grapefruit segments; pectin; and orange, lemon and grapefruit juice.

The U.S. industry had filed similar complaints in 1970 and 1972 under Section 52 of the Trade Expansion Act of 1962, the predecessor provision to Section 301. During the GATT Article XXIV:6 settlement in 1974 arising from the accession of Denmark, Ireland and the United Kingdom to the EC, the EC agreed to reduce the duty on oranges (except during the winter season) and to bind the grapefruit duty at four percent.

The U.S. sought further reductions in EC citrus duties during the Tokyo Round of the Multilateral Trade Negotiations. The EC then agreed to reduce the grapefruit duty to three percent. However, no agreement was reached on fresh oranges or orange juice.

We held a public hearing on January 25, 1977. We consulted numerous times with the EC until 1982. We began requesting establishment of a panel to examine our complaint in June, 1982, and after unsuccessful conciliation efforts in September, 1982, a panel was established. In a report on December 14, 1984, the panel found that U.S. exports of oranges and lemons had been

adversely affected by the EC preferences and recommended that the EC reduce its tariff on these items.

The GATT Council considered the panel's findings and recommendation in March and April 1985, but the EC blocked any action. On April 30, the U.S. declared that the GATT dispute resolution procedures had been exhausted and that pursuant to Section 301, the U.S. Trade Representative had 30 days in which to make a recommendation to the President as to what action, if any, he should take in response to the EC's refusal to adopt the panel's recommendation.

On May 10, 1985, we held a public hearing concerning the recommendation that the Trade Representative is required to make to the President under Section 304(a) of the Trade Act. On May 30 the Trade Representative made such a recommendation, and on June 20 the President determined that the EC practices denied benefits to the U.S. arising under the GATT, were unreasonable and discriminatory, and constituted a burden or restriction on U.S. commerce. On June 21, the President proclaimed that effective July 6, we would impose a 40 percent ad valorem duty on pasta products not containing egg, and a 25 percent ad valorem duty on pasta products containing egg.

These measures were not effected on July 6 because of agreement with the EC to pursue a negotiated settlement by October 31, 1985. However, no agreement was reached and we imposed the 40 and 25 percent duties effective November 1, 1985. The EC counter-retaliated by increasing duties on imports into the EC of U.S. lemons and walnuts.

Further consultations finally culminated in an agreement in August, 1986, under which the EC will reduce its tariffs on various citrus products, including products not covered in the original GATT dispute settlement panel report (i.e., minneolas), and products covered but for which the panel report was unfavorable (e.g., grapefruit and frozen concentrated orange juice). In addition, the EC agreed to a longstanding U.S. request to reduce EC tariffs on imports of nuts, particularly almonds, in return for which the U.S. agreed to increase the EC cheese quota by 1,925 tons and to reduce our tariffs on anchovies, satsuma oranges, capers, cider, paprika, olive oil and certain green olives. (The U.S. tariff reductions require legislative implementation.) Moreover, both governments agreed to eliminate their retaliatory duties, and to seek a resolution of the pasta dispute by July 1987.

Both the U.S. and EC retaliatory duties were eliminated on August 21, 1986. In February 1987, the EC implemented certain of the citrus concessions and the U.S. increased the EC cheese quota. Definitive implementation of the entire agreement--including reduced EC tariffs on almonds and peanuts and the U.S. tariff reductions on specified products--is dependent on passage of legislation by Congress. Both H.R. 3 as passed by the House of Representatives (section 118) and by the Senate (section 946) provide for the implementation of the remainder of the citrus agreement by authorizing the President to proclaim reduced U.S. tariffs on specified products. H.R. 3 remains pending in the House-Senate Conference.

B. Japan Semiconductors (301-48)

On June 14, 1985, the Semiconductor Industry Association filed a petition under Section 302 alleging that the Government of Japan had protected its home market and erected major barriers to the sale of foreign semiconductors in Japan. These alleged Japanese Government practices included:

-- restrictions on entry into the Japanese semiconductor industry by all but large and established Japanese electronic producers;

-- concentration of semiconductor subsidies and research and development aid to the largest electronic producers;

-- pressure on semiconductor consumers to "buy Japanese";

-- present effects from past formal restrictions on imports and foreign investment; and

-- tolerance of a market structure inconsistent with Japanese Government agreements to promote substantially equivalent opportunities to U.S. industry in Japan's semiconductor market.

The Semiconductor Industry Association alleged that the import restricting effect of Japan's market structure was in violation of its GATT agreements, inconsistent with commitments made when Japan adopted the 1983 Recommendations on High Technology, and an unreasonable burden on U.S. commerce.

The Trade Representative initiated an investigation on July 11, 1985. Throughout the summer and until Thanksgiving, the Office of the U.S. Trade Representative (USTR) had a series of consultations in which the two governments reviewed the allegations of unfair Japanese trade practices. Beginning in November 1985, we focused instead on the possible basis for a settlement agreement. We held technical discussions in January and February 1986, and consulted intensively from March through July 1986.

Those consultations and negotiations culminated in an agreement concluded ad referendum in July, under which the Japanese Government agreed: (1) to provide fair and equitable access to its domestic market for foreign semiconductor products; and (2) to help prevent the sale of Japanese semiconductors at less than their "fair value" (a term under the U.S. antidumping law), both in the United States and in third country markets. The agreement remains in effect until March 31, 1991.

On July 31, 1986, the President determined that this agreement was an appropriate and feasible response to the practices of the Government of Japan with respect to trade in semiconductors. He stressed that fulfillment of its objectives and commitments is critically important. Therefore, he specifically determined that any future failure by the Government of Japan to meet the commitments and objectives of the agreement would be inconsistent with a trade agreement or an unjustifiable act that would burden or restrict U.S. commerce. Therefore, he instructed the Trade Representative to report to him on: (1) the results of each of the periodic consultations held pursuant to the agreement; and (2) annual improvements in foreign semiconductor firms' (including, of course, American firms') access to the Japanese market. He also directed the Trade Representative and the Secretary of Commerce to take any further action appropriate to implement the agreement. Finally, he suspended the Section 301 proceeding on semiconductors as long as the objectives and commitments of the agreement are fulfilled.

The agreement was formally signed on September 2, 1986. The United States and Japan held the first consultations under the agreement in October, 1986, and almost every month thereafter through March 1987 due to difficulties over the Government of Japan's implementation of the agreement.

On March 31, 1987, USTR announced that the inter-agency Section 301 Committee would conduct a public hearing on April 13, 1987, on possible U.S. actions in response to the apparent failure by

the Government of Japan to fulfill its obligations under the agreement. The Federal Register notice announcing these hearings listed products of Japan that were being considered for the possible imposition of or increase in import duties. At those hearings, testimony was received in writing and/or orally from over 100 witnesses.

On April 17, 1987, the President determined that the Government of Japan had not implemented or enforced major provisions of the agreement; specifically, its commitments: (1) to increase market access opportunities in Japan for foreign-based semiconductor producers, and (2) to prevent sales at less than "fair value" through monitoring of costs and export prices of semiconductor products exported from Japan to third country markets. The President further determined that the appropriate response of the United States was to increase duties on certain imported articles produced by Japan, including certain color televisions, power hand tools and automatic data processing machines. In his proclamation implementing this determination under Section 301, the President authorized the Trade Representative to suspend, modify or terminate the increased duties upon publication in the Federal Register of his determination that such action is in the interest of the United States.

Pursuant to that delegated authority, on June 15, 1987, the Trade Representative suspended increased duties on imports of 20-inch color televisions from Japan because of Japan's improved conformity with its obligations under the agreement regarding "dumping." The Trade Representative stated that the access of foreign-based semiconductor companies to Japan's semiconductor market had not improved significantly and that Japanese EPROMs (erasable programmable read only memory semiconductor chips) apparently continued to be sold at unfairly low prices. But he declared that the prices of Japanese DRAMs (dynamic random access memory semiconductor chips) had increased. As a result of these price increases reducing (but not eliminating) the unfairly low pricing, he determined that it was in the interest of the United States to suspend partially the increased duties on certain products of Japan.

Effective November 10, 1987, the Trade Representative further suspended increased duties on imports of certain Japanese power hand tools, 18- and 19-inch color televisions, and low-performance 16-bit desk top computers. This action was based on the determination that Japan was fully in compliance with its obligations under the agreement with respect to preventing "dumping" of semiconductors. The Government of Japan has been monitoring costs and export prices of semiconductor products exported from Japan, and encouraging Japanese semiconductor producers to conform to antidumping principles. Moreover, the prices of EPROMs and DRAMs have increased; they are no longer being sold at unfairly low prices.

The other increased duties, imposed in response to the lack of adequate access to the Japanese market, remain in effect.

C. Korea Insurance (301-51)

At the President's direction, on September 16, 1985, the Trade Representative self-initiated an investigation into the Republic of Korea's policy of unfairly prohibiting or restricting operations in Korea of foreign insurance firms. Korea enforced restrictions that prevented U.S. firms from participating fully in Korea's compulsory fire insurance, life insurance and reinsurance markets. These restrictions on U.S. firms were inconsistent with the "national treatment" provisions of the 1956 Treaty of Friendship, Commerce, and Navigation between the United States and Korea.

We requested and received written comments from representatives of the U.S. insurance industry, the Life Insurance Association of Korea, and the Korea Non-life Insurance Association. The U.S. and Korean Governments conducted a series of consultations and negotiations regarding modification of Korean practices.

On July 21, 1986, the White House announced that the U.S. and Korea had reached an agreement concerning access to the $5 billion Korean insurance market. Under the agreement, Korea will take specified actions to improve American firms' access to that market, such as licensing qualified U.S. insurance firms to underwrite both life and non-life insurance in Korea. Further, Korean insurance authorities will review all applications in a timely manner, and provide written notice of their decision on the qualification of U.S. firms. The two governments also established a consultative mechanism to ensure discussion of matters relating to the implementation of the agreement and other issues relating to the Korean insurance market.

On August 14, 1986, the President determined under Section 301 that this agreement was an appropriate and feasible action to resolve the investigation initiated on September 16, 1985. Therefore, he approved the agreement, directed the Trade Representative to implement and monitor it, and terminated the investigation under Section 302.

On September 10, 1987, the U.S. and Korea exchanged letters amending this agreement. As amended, the agreement expressly requires the Korean Government to: (1) license qualified U.S. firms to underwrite insurance without regard to form of establishment effective January 1, 1988 (e.g., to allow joint ventures); (2) in close consultation with the U.S., establish by January 1, 1988, guidelines for the participation of Korean firms as joint venture partners; and (3) accept immediately letters of intent from two U.S. firms regarding their joint ventures, with formal applications to be accepted as of January 1, 1988.

USTR is monitoring closely the implementation of the 1986 settlement agreement, as amended last September.

D. Korea Intellectual Property (301-52)

At the President's direction, on November 4, 1985, the Trade Representative self-initiated an investigation into the adequacy of the laws of the Republic of Korea governing the protection of intellectual property rights and the effect of these laws on U.S. trade. The initiation notice stated that Korea's laws appeared to deny effective protection to U.S. intellectual property. Specific problems included the lack of patent protection for certain types of products, limitation of protection to process patents in some cases, and the lack of copyright protection.

The Trade Representative asked interested parties to submit written comments regarding the appropriate scope of the investigation, support or opposition to the investigation, and detailed information regarding specific problems created by Korean laws and their effect on trade. USTR received extensive comments from U.S. industries regarding specific problems with intellectual property protection and enforcement of existing laws, including copyright protection for computer software and audio recordings, effective enforcement of copyright laws pertaining to literary works, and patent protection for pharmaceutical and agricultural chemical products.

On November 29, 1985, the U.S. and Korean Governments began a series of consultations and negotiations in both Korea and Washington.

On July 21, 1986, the White House announced that the consultations had culminated in an agreement under which Korea's protection of copyright, patent and trademark rights will be dramatically improved. Korea agreed to take the following actions.

Concerning copyrights, the Korean Government agreed to:

- o present to its National Assembly for enactment by mid-1987 comprehensive copyright bills including coverage of traditional literary works, sound recordings, and computer software;
- o ensure the consistency with the general copyright law of the separate law for computer software;
- o establish an interministerial committee to ensure that the administration of these laws conforms;
- o provide a copyright term of life plus fifty years for works whose authors are individuals, and of fifty years from first publication in the country of origin for works authored by juridical entities, such as corporations;
- o accede to the Universal Copyright Convention and Geneva Phonograms Convention during 1987;
- o afford protection for sound recordings for a twenty-year term as a neighboring right in the new copyright law;
- o strengthen the protection for sound recordings against unauthorized reproduction, importation and distribution through stricter enforcement of Korea's Phonograms Law;
- o study the feasibility of extending copyright protection to data bases such as compilations, semiconductor chips, satellite telecasts, and cable TV; and
- o strengthen penalties against copyright infringement under the new copyright law so that the rights of both domestic and foreign copyright owners can be protected effectively.

Concerning patent rights, the Korean Government agreed to:

- o introduce for enactment by mid-1987 a comprehensive bill to amend the patent law to include patent coverage for chemical and pharmaceutical products and new uses of chemical and pharmaceutical products;
- o establish a patent term of fifteen years from the date of publication of the patent application, and provide for the granting of nonexclusive licenses only in those situations in which the dependent patent represents a substantial technical advance over the dominant patent;
- o provide patent protection for new microorganisms effective mid-1987; and
- o accede to the Budapest Treaty in 1987.

On trademarks, Korea eliminated its previous requirement for technology inducement as a condition for accepting applications for trademark licenses. As a result, the trademark license is permitted to continue beyond the life of any accompanying technology inducement agreement. Korea also agreed to:

- o no longer require joint venture or raw material supply agreements for trademark licensing;

- repeal export requirements on goods covered by trademark licenses;
- lift restrictions on royalty terms in licenses;
- under its Office of Patent Administration guidelines, provide that import bans or restrictions constitute "just cause" for nonuse, thereby precluding cancellation for nonuse or rejection of a trademark registration of goods subject to such restrictions; and
- adopt and implement guidelines prohibiting domestic entities from registering trademarks identical to or resembling those owned by foreign entities, regardless whether the foreign mark is "well known" in Korea.

The Korean Government also agreed to ensure adequate protection of intellectual property rights, give a high priority to enforcement, and enact effective penalties for intellectual property rights violations. Moreover, the two governments agreed to establish a consultative mechanism to discuss matters relating to implementation of this agreement and other issues related to protection of intellectual property.

On August 14, 1986, the President determined that the agreement between the United States and Korea was an appropriate and feasible action to resolve the investigation self-initiated on November 4, 1985. Accordingly, he approved the agreement, directed the Trade Representative to implement and monitor it, and terminated the investigation under Section 302.

Since conclusion of the agreement, USTR has monitored its implementation. Several problems have developed recently. U.S. industry has complained about inadequate patent protection and enforcement. Moreover, there has been evidence of widespread piracy in Korea of U.S. copyrighted textbooks. In response, the U.S. has called for consultations under the 1986 agreement, scheduled for the week of January 25.

E. Argentina Soybeans (301-53)

On December 13, 1985, the National Soybean Processors Association (NSPA) filed a petition complaining about Argentina's system of differential export taxes, under which exports of soybeans are subject to a higher export tax than exports of soybean oil and meal. On January 27, 1986, NSPA withdrew its petition without prejudice. On April 4, 1986, it again filed a petition, and we initiated an investigation on April 25. We consulted with the Government of Argentina on several occasions.

On May 14, 1987, the President suspended the investigation in response to the decision by the Government of Argentina to eliminate export taxes on soybeans and soybean products (which, since the filing of the petition, had been reduced to 15 percent on soybeans and 3 percent on soybean meal and oil). The President noted that the Government of Argentina had recently informed the Trade Representative of its decision to eliminate those taxes within 180 days. When implemented, the President stated, this action would eliminate the practice under investigation. The President directed the Trade Representative to notify the Government of Argentina of his determination and to take any actions necessary to implement and monitor it.

Based on such monitoring, however, the Trade Representative determined in late 1987 that the Government of Argentina had failed to meet its commitments on a timely basis. With the support of the petitioner, U.S. provided the Argentine Government a further opportunity to resolve this dispute amicably in lieu of

unilateral U.S. action. Based on discussions in November and December 1987, we are hopeful that a satisfactory settlement will be possible early in 1988.

F. EC Enlargement (301-54)

On March 31, 1986, the President announced that he would take action under Section 301 if the European Community (EC) did not rescind certain quantitative restrictions on soybeans and feedgrains in Portugal and if the EC did not provide, by July 1, 1986, adequate compensation for damage to U.S. exporters of corn and sorghum resulting from the withdrawal of tariff commitments and the imposition of high variable import levies on those products in Spain. The restrictions in question were introduced by the EC on March 1, in the context of Spain and Portugal joining the EC.

We held public hearings on proposed U.S. actions on April 21-22. On May 15, the President proclaimed import quotas on certain EC products (certain chocolate, candy, apple juice, certain beer and white wine) under the authority of Section 301 in response to the EC restrictions in Portugal. Those quotas are adjustable to mirror the effects of the EC measures on U.S. exports to Portugal. In the same proclamation, the President also withdrew certain international tariff commitments (including those affecting certain canned hams, carrots, endives, cheeses, white wine, gin, and brandy), in response to the EC's withdrawal of Spanish tariff commitments on corn and sorghum. However, U.S. tariffs were not increased, pending efforts to negotiate compensation for U.S. claims.

On July 2, the United States and the EC reached an interim solution of the dispute regarding corn and sorghum exports to Spain. The EC undertook to assure that any loss of U.S. exports of corn and sorghum to Spain compared to a monthly average of 234,000 metric tons for the remaining six months of 1986 would be offset by increased access to the EC under a reduced import levy quota. The United States agreed during this period not to increase duties on EC products while the two parties sought a definitive settlement. Despite extensive negotiations throughout this period, the EC was unwilling to compensate the U.S. sufficiently by the agreed deadline of December 31, 1986. Therefore, on December 30, Ambassador Yeutter announced the President's decision to raise duties to 200 percent ad valorem on imports from the EC of the above-listed products on which U.S. tariff commitments were withdrawn in May 1986. He noted that these increases would be effective by the end of January 1987, unless acceptable compensation from the EC could be achieved.

By Proclamation 5601 of January 21, 1987, the President determined pursuant to Section 301(a), (b) and (d)(1), that duties should be increased to 200 percent ad valorem on a most-favored-nation basis on certain specified articles (certain hams, cheeses, endive, carrots, olives, white wines, brandy and gin). (Moreover, the rates of duty for countries not receiving most-favored-nation treatment were to be modified accordingly.)

However, in the event the EC provided adequate compensation for the imposition of variable levies on corn and sorghum imports, or if other circumstances so warranted, the President authorized the Trade Representative to suspend, modify or terminate the increased duties if he determined that such action is in the interest of the United States.

In a Federal Register notice effective January 30, 1987, the Trade Representative noted that the U.S. and EC reached an agreement on January 29, 1987. The EC agreed to provide adequate compensation to the United States at least for the period through December 31, 1990. It agreed, inter alia, to extend certain

tariff commitments, reduce certain tariffs and take steps to assure EC importation of certain quantities of feedgrains from non-EC countries.

Based on these developments and pursuant to the authority delegated to him by the President in the January 21 proclamation, the Trade Representative determined that it is in the interest of the United States to suspend, effective January 30, 1987, the increased duties imposed by Proclamation 5601 on all the articles specified in the annex to that Proclamation. USTR is monitoring the EC's compliance with the agreement.

G. Canada Salmon and Herring (301-55)

On April 1, 1986, Icicle Seafoods, Inc. filed a petition complaining about the Government of Canada's restrictions on the exportation of unprocessed salmon and herring. On May 16, we initiated an investigation and asked for consultations.

We consulted with the Government of Canada under GATT Article XXIII:1 without reaching a mutually satisfactory resolution. We then requested the establishment of a panel under Article XXIII:2. In late November 1987, after reviewing briefs and oral arguments by the parties, the panel ruled in favor of the United States. Essentially, it determined that Canada's export controls were inconsistent with Article XI of the GATT and not justified by any other GATT provision.

In accordance with GATT practice, this report will be considered for adoption by the GATT Council. The U.S. will move such adoption at the first GATT Council session in 1988. If the GATT Council adopts the report, Canada will be expected to take action to come into compliance with its GATT obligations.

H. Canada Softwood Lumber (301-58)

On December 30, 1986, without a preceding investigation under Section 302, the United States and Canada concluded a softwood lumber agreement. The Government of Canada agreed to impose a charge of 15 percent ad valorem on certain softwood products exported to the United States. The United States agreed that this charge may be reduced commensurately as the Canadian provinces modify their practices regarding the terms and conditions under which stumpage (standing timber) may be harvested, so as to eliminate the subsidy preliminarily found by the Department of Commerce in October 1986 in a countervailing duty proceeding.

However, the Canadian Government indicated that for administrative reasons, it would be unable to impose and collect the charge on December 31, the first day the charge should have taken effect under the agreement. To avoid any harm to the U.S. industry pending full Canadian implementation of its obligations under the agreement, the President proclaimed under Section 301 a temporary 15 percent ad valorem duty increase applicable to imports into the U.S. of certain softwood products of Canada. As the necessary predicate for this action, the President determined under Section 301 that acts, policies and practices of the Government of Canada regarding stumpage were unjustifiable or unreasonable and a burden or restriction on U.S. commerce.

In a Federal Register notice effective January 8, 1987, the Secretary of Commerce determined that Canada had begun to collect an export charge on exports to the United States of certain softwood lumber products. Therefore, the Secretary announced the suspension of the additional duty of 15 percent on imports from Canada of such products. On May 26, 1987, the Government of Canada passed legislation providing for this tax.

On December 16, 1987, the U.S. and Canada concluded a related agreement principally approving certain "replacement measures" being taken by British Colombia with respect to its stumpage practices. This is a positive development, reflecting that the Canadian provinces are exploring ways to modify the terms and conditions under which they allow stumpage to be harvested, consistent with the U.S. countervailing duty law.

I. India Almonds (301-59)

On January 6, 1987, the California Almond Growers Exchange filed a petition alleging that the Government of India has engaged in practices affecting imports of inshell and shelled almonds that deny rights of the United States under a trade agreement, are inconsistent with a trade agreement, and are unjustifiable or unreasonable and cause a burden or restriction on United States commerce. The practices complained of are quantitative restrictions on imports of almonds into India, import licensing practices for almonds, and tariffs on almonds.

On February 20, 1987, the Trade Representative initiated an investigation of these practices and requested consultations with the Government of India. Those consultations were held in Geneva in June under Article XXIII:1 of the GATT and Article 4 of the Agreement on Import Licensing Procedures (Licensing Code).

In the Licensing Code case, establishment of a code panel and terms of reference have been agreed to. The U.S. and India are still seeking agreement on particular panelists.

Since bilateral consultations under Article XXIII:1 failed to resolve the GATT issue, the U.S. requested the establishment of a panel under Article XXIII:2 at GATT Council sessions in July, October and November 1987. At the last such meeting, India agreed. The two governments are now drawing up terms of reference and considering possible panelists.

The deadline for the Trade Representative's recommendations to the President in this case is 30 days following the conclusion of dispute settlement.

III. Petitions in Response to Which an Investigation Was Initiated

A. EC Third Country Meat Directive (301-60)

On July 14, 1987, a petition was filed by the American Meat Institute, U.S. Meat Export Federation, American Farm Bureau Federation, National Pork Producers Council and National Cattlemen's Association. Petitioners complained of the EC's Third Country Meat Directive, which allegedly subjects meat imported from the U.S. into EC members countries to regulatory requirements not observed within those countries, not fully enforced or observed in meat packing plants shipping across national boundaries in the EC, and not based or justified by any valid scientific analysis. Moreover, petitioners alleged that the Directive was generally unjustifiable, unreasonable or discriminatory and a burden or restriction on U.S. commerce.

On July 22, the Trade Representative initiated an investigation, and USTR requested consultations with the EC. Those consultations did not result in a satisfactory resolution, so the U.S. requested the establishment of a dispute settlement panel under Article XXIII:2 of the GATT. After initially blocking the United States request, the EC later acceded to it in December 1987. The panel

formed will recommend a determination to the GATT Council.

The Trade Representative's recommendations to the President in this case are due within 30 days following the conclusion of GATT dispute settlement.

B. Brazil Pharmaceuticals (301-61)

On June 11, 1987, the Pharmaceutical Manufacturers Association filed a petition alleging that the Government of Brazil denies process and patent protection to pharmaceuticals products and that this policy and practice is unreasonable and burdens or restricts U.S. commerce.

On July 23, 1987, the Trade Representative initiated an investigation. We held a public hearing on September 14, to develop information on the scope and effect of Brazil's failure to provide patent protection for pharmaceuticals. We have requested consultations with Brazil, and the Government of Brazil has agreed to talks at a date to be mutually agreed upon.

The Trade Representative's recommendations to the President in this case are due one year from initiation, or by July 23, 1988.

IV. Petition in Response to Which an Investigation Was Not Initiated

A. Korea Patent Protection

On October 5, 1987, the Bristol-Myers Company filed a petition complaining of lack of adequate enforcement by the Korean government of its patent for an antibiotic, amikacin. Pending the outcome of discussions with the Korean firm allegedly infringing that patent, Bristol-Myers withdrew its petition without prejudice on November 16, 1987.

Unless the matter is resolved to our satisfaction prior to January 25, the U.S. will raise this issue (among others) in consultations with the Government of Korea scheduled for that week.

V. Petition in Response to Which a Determination Whether to Initiate an Investigation Was Not Made as of December 31, 1987

A. EC Oilseeds

On December 16, 1987, the American Soybean Association (ASA) filed a petition alleging that the European Community provides subsidies to the processors of soybeans and other oilseeds so as to nullify or impair benefits reasonably expected to accrue to the United Stats under the GATT, including specifically the EC's zero tariff binding on soybeans. ASA further complained that these EC practices were unjustifiable, unreasonable or discriminatory and a burden or restriction on U.S. commerce.

The Trade Representative's decision whether to initiate an investigation in response to this petition was due by January 31, 1988, and was pending at the conclusion of this reporting period.

On January 5, 1988, the Trade Representative initiated an investigation. USTR so advised the EC and requested consultations on this matter.

Conclusion

There have been no significant developments in other Section 301 proceedings; their status therefore remains unchanged from that reported in previous semiannual reports.

REPORT TO CONGRESS REQUIRED BY SECTION 306
OF THE TRADE ACT OF 1974
(January-June 1987)

I. Cases in Which the President Acted During This Period

A. Japan Semiconductors (301-48)

On June 14, 1985, the Semiconductor Industry Association filed a petition under Section 302 alleging that the Government of Japan has protected its home market and erected major barriers to the sale of foreign semiconductors in Japan. These Japanese Government practices included:

-- restrictions on entry into the Japanese semiconductor industry by all but large and established Japanese electronic producers;

-- concentration of semiconductor subsidies and research and development aid to the largest electronic producers;

-- pressure on semiconductor consumers to "buy Japanese";

-- present effects from past formal restrictions on imports and foreign investment; and

-- tolerance of a market structure inconsistent with Japanese Government agreements to promote substantially equivalent opportunities to U.S. industry in Japan's semiconductor market.

The Semiconductor Industry Association alleged that the import restricting effect of Japan's market structure was in violation of its GATT agreements, inconsistent with commitments made when Japan adopted the 1983 Recommendations on High Technology, and an unreasonable burden on U.S. commerce.

The Trade Representative initiated an investigation on July 11, 1985. Throughout the summer and until Thanksgiving, the Office of the U.S. Trade Representative (USTR) had a series of consultations in which the two governments reviewed the allegations of unfair Japanese trade practices. Beginning in November 1985, we focused instead on the possible basis for a settlement agreement. We held technical discussions in January and February 1986, and consulted intensively from March through July 1986.

Those consultations and negotiations culminated in an agreement concluded ad referendum in July, under which the Japanese Government agreed: (1) to provide fair and equitable access to its domestic market for foreign semiconductor products; and (2) to help prevent the sale of Japanese semiconductors at less than their "fair value" (a term under the U.S. antidumping law), both in the United States and in third country markets. The agreement remains in effect until March 31, 1991.

On July 31, 1986, the President determined that this agreement was an appropriate and feasible response to the practices of the Government of Japan with respect to trade in semiconductors. He stressed that fulfillment of its objectives and commitments is critically important. Therefore, he specifically determined that any future failure by the Government of Japan to meet the commitments and objectives of the agreement would be inconsistent with a trade agreement or an unjustifiable act that would burden or restrict U.S. commerce. Therefore, he instructed the Trade Representative to report to him on: (1) the results of each of the periodic consultations held pursuant to the agreement; and (2) annual improvements in foreign semiconductor firms' (including, of course, American firms') access to the Japanese market. He

also directed the Trade Representative and the Secretary of Commerce to take any further action appropriate to implement the agreement. Finally, he suspended the Section 301 proceeding on semiconductors as long as the objectives and commitments of the agreement are fulfilled.

The agreement was formally signed on September 2, 1986. The United States and Japan held the first consultations under the agreement in October, 1986, and almost every month thereafter every month through March 1987 due to difficulties over the Government of Japan's implementation of the agreement.

On March 31, 1987, USTR announced that the inter-agency Section 301 Committee would conduct a public hearing on April 13, 1987, on possible U.S. actions in response to the apparent failure by the Government of Japan to fulfill its obligations under the agreement. The Federal Register notice announcing these hearings listed products of Japan that were being considered for the possible imposition of or increase in import duties. At those hearings, testimony was received in writing and/or orally from over 100 witnesses.

On April 1, 1987, the President determined that the Government of Japan had not implemented or enforced major provisions of the agreement; specifically, its commitments: (1) to increase market access opportunities in Japan for foreign-based semiconductor producers, and (2) to prevent sales at less than "fair value" through monitoring of costs and export prices of semiconductor products exported from Japan. The President further determined that the appropriate response of the United States was to increase duties on certain imported articles produced by Japan, including certain color televisions, power hand tools and automatic data processing machines. In his proclamation implementing this determination under Section 301, the President authorized the Trade Representative to suspend, modify or terminate the increased duties upon publication in the Federal Register of his determination that such action is in the interest of the United States.

Pursuant to that delegated authority, on June 15, 1987, the Trade Representative suspended increased duties on imports of 20-inch color televisions from Japan because of Japan's improved conformity with its obligations under the agreement. The Trade Representative stated that the access of foreign-based semiconductor companies to Japan's semiconductor market had not improved and that Japanese EPROMs (erasable programmable read only memory semiconductor chips) apparently continued to be sold at unfairly low prices. But he declared that the prices of Japanese DRAMs (dynamic random access memory semiconductor chips) have increased. As a result of these price increases reducing (but not eliminating) the unfairly low pricing, he determined that it is in the interest of the United States to partially suspend the increased duties on certain products of Japan.

The other increased duties imposed by the President's proclamation of April 1, 1987 remain in effect.

B. Brazil Informatics (301-49)

At the President's direction, on September 16, 1986, the Trade Representative self-initiated an investigation of the Government of Brazil's informatics policy, designed to promote a national informatics (computer and other equipment based on digital technology) industry. Brazil's informatics law restricts foreign investment in this sector and imports of these products into Brazil. In addition, Brazil provides insufficient protection for related intellectual property rights, especially computer software.

On October 6, 1986, the President determined under Section 301

that Brazil's informatics policy is unreasonable and a burden or restriction on U.S. commerce. He directed the Trade Representative to continue negotiations, and deferred a final decision as to the appropriate U.S. response to Brazil until December 31 to allow time for such negotiations. In the interim, however, he directed the Trade Representative to notify the General Agreement on Tariffs and Trade (GATT) of the United States intent under GATT Article XVIII to suspend the application of U.S. tariff concessions to imports from Brazil (in order to compensate for the annual loss in U.S. sales opportunities in Brazil due to the informatics policy), and to implement such suspension when appropriate.

On November 28, 1986, the Trade Representative advised the GATT Secretariat and the delegation of Brazil of its intention to suspend the application of compensatory U.S. tariff concessions to Brazil, as instructed by the President.

On December 30, 1986, the President decided to: (1) suspend that part of the investigation dealing with Brazilian administrative procedures; and (2) direct the Trade Representative to conduct further negotiations with Brazil toward achieving adequate and effective protection for intellectual property rights, particularly for computer software, and the elimination of barriers to U.S. investment in the Brazilian informatics sector. In his determination, the President explained that the Government of Brazil has undertaken administrative reforms that, if fully implemented, should reduce the adverse effect on United States commerce of the Brazilian informatics policy. Brazil has established an ad hoc group to review specific company complaints regarding the application of the informatics law to U.S. trade and investment. It has announced certain other reforms designed to speed and simplify the process of obtaining necessary licenses and to create an appeals process. Finally, it has defined and narrowed the scope of its import restrictions (although they remain subject to periodic revision). The President concluded that these developments warranted suspending, but not terminating, that part of the investigation. He stated that if these improvements are properly implemented and have the expected effect of reducing the burden on U.S. commerce, then that part of the investigation could be terminated.

The President further determined, however, that to date insufficient progress has been made in negotiations with Brazil to eliminate restrictions on U.S. investment in the informatics sector and to obtain adequate protection of intellectual property rights. He concluded that a final negotiating effort was appropriate, and declared that he would determine the response of the United States to Brazil's informatics policy if no acceptable resolution were forthcoming within six months.

On February 10, 1987, USTR invited written comments and announced that it would hold public hearings on March 12 on Brazil's inadequate protection of intellectual property and its proposed commercialization legislation for computer software and investment restrictions in the informatics sector. Specifically, USTR requested comments concerning:

(1) Brazil's lack of adequate copyright protection for computer software, as well as Brazil's proposed copyright and commercialization legislation;

(2) barriers on U.S. investment in Brazil's informatics sector, including discriminatory incentives provided by the Government of Brazil and restrictions on: the formation of joint ventures, the upgrading and modernization of existing facilities, the products that can be manufactured and/or

sold in Brazil from those facilities, and the treatment of royalties, trade secrets and technology transfer;

(3) the impact of these investment measures on the trade flows of the company, including from Brazilian operations to third markets, within Brazil, and between Brazil and the U.S.; and

(4) the extent to which Brazil's overall investment climate is affected by its informatics policies, and the treatment of U.S. investors compared to other foreign and domestic companies in Brazil.

At the public hearings held on March 12, comments were received in writing and/or orally from numerous witnesses.

On June 30, 1987, the President suspended the intellectual property portion of this investigation. He noted that the Government of Brazil's lower house had passed legislation that would provide adequate copyright protection to computer software. Although enactment of that legislation still requires favorable action by the upper house, the President concluded that progress to date and the likely enactment of legislation adequately protecting computer software from piracy warranted suspension of the intellectual property portion of the investigation. He said the Trade Representative will continue to monitor developments in this area, with a view to terminating or reopening this part of the investigation as appropriate based on developments.

Regarding the Government of Brazil's restrictions on U.S. investment in the informatics sector, the President noted Brazil's request to judge its performance in this area based upon a favorable "track record" in approving U.S. investment proposals. He directed the Trade Representative to pursue this part of the Section 301 investigation as appropriate.

Regarding the suspended parts of the investigation concerning Brazil's administrative procedures and "market reserve" practices, the President noted that the Trade Representative will continue to monitor developments in these areas, with a view to terminating or reopening these parts of the investigation as appropriate based on developments.

C. Argentina Soybeans (301-53)

On December 13, 1985, the National Soybean Processors Association (NSPA) filed a petition complaining about Argentina's system of differential export taxes, under which exports of soybeans were subject to an export tax of 10 percent and exports of soybean oil and meal were subject to an export tax of 25 percent. On January 27, 1986, NSPA withdrew its petition without prejudice. On April 4, it again filed a petition, and we initiated an investigation on April 25.

We consulted with the Government of Argentina on several occasions.

On May 14, 1987, the President determined that suspending this investigation was an appropriate and feasible response to the decision by the Government of Argentina to eliminate export taxes on soybeans and soybean products (which, since the filing of the petition, had been reduced to 15 percent on soybeans and 3 percent on soybean meal and oil). The President noted that the Government of Argentina has recently informed the Trade Representative of its decision to eliminate those taxes within 180 days. When implemented, the President stated, this action will eliminate the practice under investigation.

Based on these developments, the President suspended the investigation and directed the Trade Representative to notify the Government of Argentina of this determination and to take any actions necessary to implement and monitor it.

II. Pending Cases in Which the Office of the U.S. Trade Representative Acted Further

A. EC Citrus (301-11)

On November 12, 1976, the Florida Citrus Commission filed a petition under Section 301 alleging that preferential import duties established by the EC for imports of orange and grapefruit juices from certain Mediterranean countries had an adverse effect upon U.S. citrus juice producers. The California-Arizona Citrus League, the Texas Citrus Mutual, and the Texas Citrus Exchange filed a petition on the same day, making similar allegations but covering a wider range of citrus products. With the agreement of all petitioners, on November 30, 1976, we initiated one investigation covering tariff preferences on fresh oranges, tangerines, lemons and grapefruit; grapefruit segments; pectin; and orange, lemon and grapefruit juice.

The U.S. industry had filed similar complaints in 1970 and 1972 under Section 252 of the Trade Expansion Act of 1962, the predecessor provision to Section 301. During the GATT Article XXIV:6 settlement in 1974 arising from the accession of Denmark, Ireland and the United Kingdom to the EC, the EC agreed to reduce the duty on oranges (except during the winter season) and to bind the grapefruit duty at four percent.

The U.S. sought further reductions in EC citrus duties during the Tokyo Round of the Multilateral Trade Negotiations. The EC then agreed to reduce the grapefruit duty to three percent. However, no agreement was reached on fresh oranges or orange juice.

We held a public hearing on January 25, 1977. We consulted numerous times with the EC until 1982. We began requesting establishment of a panel to examine our complaint in June, 1982, and after unsuccessful conciliation efforts in September, 1982, a panel was established. In a report on December 14, 1984, the panel found that U.S. exports of oranges and lemons had been adversely affected by the EC preferences and recommended that the EC reduce its tariff on these items.

The GATT Council considered the panel's findings and recommendation in March and April 1985, but the EC blocked any action. On April 30, the U.S. declared that the GATT dispute resolution procedures had been exhausted and that pursuant to Section 301, the U.S. Trade Representative had 30 days in which to make a recommendation to the President as to what action, if any, he should take in response to the EC's refusal to adopt the panel's recommendation.

On May 10, 1985, we held a public hearing concerning the recommendation that the Trade Representative is required to make to the President under Section 304(a) of the Trade Act. On May 30 the Trade Representative made such a recommendation, and on June 20 the President determined that the EC practices denied benefits to the U.S. arising under the GATT, were unreasonable and discriminatory, and constituted a burden or restriction on U.S. commerce. On June 21, the President proclaimed that effective July 6, we would impose a 40 percent ad valorem duty on pasta products not containing egg, and a 25 percent ad valorem duty on pasta products containing egg.

These measures were not effected on July 6 because of agreement with the EC to pursue a negotiated settlement by October 31,

1985. However, no agreement was reached and we imposed the 40 and 25 percent duties effective November 1, 1985. The EC counter-retaliated by increasing duties on imports into the EC of U.S. lemons and walnuts.

Further consultations finally culminated in an agreement in August, 1986, under which the EC will reduce its tariffs on various citrus products, including products not covered in the original GATT dispute settlement panel report (i.e., minneolas), and products covered but for which the panel report was unfavorable (e.g., grapefruit and frozen concentrated orange juice). In addition, the EC agreed to a longstanding U.S. request to reduce EC tariffs on imports of nuts, particularly almonds, in return for which the U.S. agreed to increase the EC cheese quota by 1,925 tons and to reduce our tariffs on anchovies, satsuma oranges, capers, cider, paprika, olive oil and certain green olives. (The U.S. tariff reductions require legislative implementation.) Moreover, both governments agreed to eliminate their retaliatory duties, and to seek a resolution of the pasta dispute by July 1987.

Both the U.S. and EC retaliatory duties were eliminated on August 21, 1986. In February 1987, the EC implemented certain of the citrus concessions and the U.S. increased the EC cheese quota. Definitive implementation of the entire agreement--including reduced EC tariffs on almonds and peanuts and the U.S. tariff reductions on specified products--is dependent on passage of legislation by Congress. Both H.R. 3 as passed by the House of Representatives (section 118) and S. 1420 as introduced in the Senate (section 946) provide for the implementation of the remainder of the citrus agreement by authorizing the President to proclaim reduced U.S. tariffs on specified products.

B. National Pasta Association (301-25)

The National Pasta Association filed a petition under Section 301 on October 16, 1981, alleging that EC export subsidies on pasta products violate Article 9 of the Subsidies Code, which prohibits export subsidies on non-primary products. Although the Article 9 allegations are dispositive of the case, the petition also alleged that EC export subsidies threaten serious prejudice to U.S. pasta manufacturers contrary to Article 8 of the Subsidies Code, by displacing U.S. manufacturers in their home markets.

Under its Council Regulations on the Common Organization of the Market in Cereals (Council Regulation No. 2727/75), the EC provides that certain EC cereal products, after being transformed into processed goods, may be eligible for an export refund. The refund on the processed product is intended to cover the difference between quotations or prices of the cereals on the world market and prices in the Community.

We initiated an investigation on November 30, 1981, and requested consultations with the EC under the Subsidies Code on December 2, 1981. The time period for consultations in this case was 30 days. However, the EC did not even respond to our request until January 25, 1982--almost eight weeks after our request. In its response, the EC declined to hold formal consultations, and suggested instead that the Subsidies Code Committee be convened to discuss Article 9 of the Code. On March 3, 1982, the U.S. referred the matter to the Subsidies Code Committee for conciliation. When conciliation failed, we requested a panel on April 7. The panel met on July 14 and October 8, 1982, and March 29, 1983.

The Trade Representative submitted a recommendation to the President regarding the pasta petition on June 30, 1982. On July 21, 1982, the President directed USTR to complete the dispute settlement process expeditiously.

The panel submitted its report to the Subsidies Code Committee on May 19, 1983. The panel concluded (with one member dissenting) that the EC subsidies were inconsistent with the EC's obligations under Article 9 of the Code. The Subsidies Code Committee considered the report on June 9 and November 17, 1983, at which time the U.S. urged its adoption. The Committee has not yet made a decision, because the EC and certain other European countries have blocked adoption of the report.

In the context of our dispute with the EC over its discriminatory citrus tariffs that deny fair access for U.S. citrus exports to the EC market (see the preceding section of this report on the citrus case), on June 21, 1985, the President proclaimed that effective July 6, we would increase our tariffs on imports from the EC of pasta products not containing egg to 40 percent ad valorem, and on pasta products containing egg to 25 percent ad valorem. The EC indicated that it would counterretaliate through increased tariffs on imports of lemons and walnuts from the U.S.

Both sides agreed to rescind the tariff increases in response to the EC's offer to reduce its pasta subsidy and to increase access to its market for U.S. citrus exports by October 31. The increased U.S. duties on EC pasta imports were suspended through a Presidential proclamation of August 15, 1985, in which the President authorized the Trade Representative to suspend, modify, or terminate the increase in EC pasta duties if justified by actions taken by the EC toward a mutually acceptable resolution of the citrus dispute.

Because the EC did not increase such access as promised, on November 1, the Trade Representative imposed substantially higher duties on pasta products imported from the EC. The EC responded by increasing its tariffs on imports from the U.S. of lemons and walnuts.

In the context of a satisfactory settlement of the EC citrus case (described above) in August 1986, the United States and EC agreed on the elimination by the U.S. of the increased duties on EC pasta, and by the EC of retaliatory increased duties on U.S. lemons and walnuts. To fulfill this agreement and pursuant to authority delegated to him by the President in August 1985, effective August 21, 1986, the Trade Representative determined that the increased pasta duties were no longer justified and terminated them.

Also in the context of the citrus case, the U.S. and EC agreed to seek a satisfactory resolution of the pasta case by July 1, 1987. Despite extensive negotiations, no settlement was reached by that date. However, any action by the U.S. was held in abeyance pending the arrival in the U.S. of EC Commissioner for External Affairs Willy de Clercq on July 6.

C. Japan Manufactured Tobacco Products (301-50)

At the President's direction, the Trade Representative self-initiated an investigation on September 16, 1985, of Japanese practices that acted as a barrier to U.S. cigarette exports. These practices included Japan's tariff and specific excise taxes, which in combination with Japan's prohibition on investment in tobacco manufacturing placed U.S. cigarettes at an unfair price disadvantage; and numerous distribution restrictions that limit access to the Japanese market.

Following a series of consultations, on October 3, 1986, the United States and Japan reached an agreement designed to increase

access to the Japanese market for U.S. exports of manufactured tobacco products. The Government of Japan agreed to suspend its cigarette tariff, end its discriminatory deferral of excise tax payments by its tobacco monopoly, and modify its price approval system to shorten the application period and make the process transparent and virtually automatic. Moreover, the Japanese Government-controlled distribution instrumentality agreed to address satisfactorily the major existing problems with respect to distributing tobacco products in Japan. The implementation of all these measures is expected to accomplish the United States goal of obtaining increased access for U.S. firms to Japan's cigarette market.

On October 6, 1986, the President determined that this agreement was an appropriate and feasible response to the policies and practices of the Government of Japan with respect to the manufacture, importation and sale of tobacco products in Japan. The President directed the Trade Representative to implement and monitor the agreement, and to suspend the Section 301 proceeding pending full implementation of the agreement.

USTR has monitored developments regarding the implementation of this agreement. All promised actions other than elimination of the discriminatory deferral of excise taxes were taken before the promised date. Elimination of the deferral was part of the tax package that was withdrawn from Diet consideration (for reasons unrelated to this action). The Government of Japan has promised implementation in the near future. USTR will continue to monitor and to urge prompt action.

D. Korea Insurance (301-51)

At the President's direction, on September 16, 1985, the Trade Representative self-initiated an investigation into the Republic of Korea's policy of unfairly prohibiting or restricting operations in Korea of foreign insurance firms. Korea enforced restrictions that prevented U.S. firms from participating fully in Korea's compulsory fire insurance, life insurance and reinsurance markets. These restrictions on U.S. firms were inconsistent with the "national treatment" provisions of the 1956 Treaty of Friendship, Commerce, and Navigation between the United States and Korea.

We requested and received written comments from representatives of the U.S. insurance industry, the Life Insurance Association of Korea, and the Korea Non-life Insurance Association. The U.S. and Korean Governments conducted a series of consultations and negotiations regarding modification of Korean practices.

On July 21, 1986, the White House announced that the U.S. and Korea had reached an agreement concerning access to the $5 billion Korean insurance market. Under the agreement, Korea will take specified actions to improve American firms' access to that market, such as licensing qualified U.S. insurance firms to underwrite both life and non-life insurance in Korea. Further, Korean insurance authorities will review all applications in a timely manner, and provide written notice of their decision on the qualification of U.S. firms. The two governments also established a consultative mechanism to ensure discussion of matters relating to the implementation of the agreement and other issues relating to the Korean insurance market.

On August 14, 1986, the President determined under Section 301 that this agreement was an appropriate and feasible action to resolve the investigation initiated on September 16, 1985. Therefore, he approved the agreement, directed the Trade Representative to implement and monitor it, and terminated the investigation under Section 302.

Since conclusion of the agreement, USTR has monitored its implementation. American firms have been admitted to the compulsory fire pool, applications to underwrite life insurance are being handled in a timely manner, a program for liberalization of the reinsurance market has been developed and a number of technical and administrative matters has been discussed and resolved.

E. Korea Intellectual Property (301-52)

At the President's direction, on November 4, 1985, the Trade Representative self-initiated an investigation into the adequacy of the laws of the Republic of Korea governing the protection of intellectual property rights and the effect of these laws on U.S. trade. The initiation notice stated that Korea's laws appeared to deny effective protection to U.S. intellectual property. Specific problems included the lack of patent protection for certain types of products, limitation of protection to process patents in some cases, and the lack of copyright protection.

The Trade Representative asked interested parties to submit written comments regarding the appropriate scope of the investigation, support or opposition to the investigation, and detailed information regarding specific problems created by Korean laws and their effect on trade. USTR received extensive comments from U.S. industries regarding specific problems with intellectual property protection and enforcement of existing laws, including copyright protection for computer software and audio recordings, effective enforcement of copyright laws pertaining to literary works, and patent protection for pharmaceutical and agricultural chemical products.

On November 29, 1985, the U.S. and Korean Governments began a series of consultations and negotiations in both Korea and Washington.

On July 21, 1986, the White House announced that the consultations had culminated in an agreement under which Korea's protection of copyright, patent and trademark rights will be dramatically improved. Korea agreed to take the following actions.

Concerning copyrights, the Korean Government agreed to present to its National Assembly for enactment by mid-1987 comprehensive copyright bills including coverage of traditional literary works, sound recordings, and computer software. Although there will be a separate bill for computer software copyright protection, its provisions will be consistent with those of the general copyright law, and an interministerial committee will be established to ensure that the administration of these laws conforms. The new copyright law will provide a term of life plus fifty years for works whose authors are individuals, and of fifty years from first publication in the country of origin for works authored by juridical entities, such as corporations. The Korean Government will accede to the Universal Copyright Convention and Geneva Phonograms Convention during 1987. Protection for sound recordings will be afforded for a twenty-year term as a neighboring right in the new copyright law, and their protection against unauthorized reproduction, importation and distribution will be strengthened through stricter enforcement of Korea's Phonograms Law. The Korean Government will study the feasibility of extending copyright protection to data bases such as compilations, semiconductor chips, satellite telecasts, and cable TV. It will also strengthen penalties against copyright infringement under the new copyright law so that the rights of both domestic and foreign copyright owners can be protected effectively.

Concerning patent rights, the Korean Government will introduce for enactment by mid-1987 a comprehensive bill to amend the patent law to include patent coverage for chemical and pharma-

ceutical products and new uses of chemical and pharmaceutical products. It will establish a patent term of fifteen years from the date of publication of the patent application, and provide for the granting of nonexclusive licenses only in those situations in which the dependent patent represents a substantial technical advance over the dominant patent. Patent protection for new microorganisms will be effective in mid-1987, and Korea will accede to the Budapest Treaty in 1987.

On trademarks, Korea eliminated its previous requirement for technology inducement as a condition for accepting applications for trademark licenses. As a result, the trademark license will be permitted to continue beyond the life of any accompanying technology inducement agreement. Joint venture or raw material supply agreements also will no longer be necessary for trademark licensing, and Korea repealed export requirements on goods covered by trademark licenses, and lifted restrictions on royalty terms in licenses. Korea also agreed that under its Office of Patent Administration guidelines, import bans or restrictions will constitute "just cause" for nonuse, thereby precluding cancellation for nonuse or rejection of a trademark registration of goods subject to such restrictions. Finally, Korea agreed to adopt and implement guidelines prohibiting domestic entities from registering trademarks identical to or resembling those owned by foreign entities, regardless whether the foreign mark is "well known" in Korea.

The Korean Government also agreed to ensure adequate protection of intellectual property rights. It agreed to give a high priority to enforcement and to enact effective penalties for intellectual property rights violations.

Moreover, the two governments agreed to establish a consultative mechanism to discuss matters relating to implementation of this agreement and other issues related to protection of intellectual property.

On August 14, 1986, the President determined that the agreement between the United States and Korea was an appropriate and feasible action to resolve the investigation self-initiated on November 4, 1985. Accordingly, he approved the agreement, directed the Trade Representative to implement and monitor it, and terminated the investigation under Section 302.

Since conclusion of the agreement, USTR has monitored its implementation. Korea has fulfilled each of its obligations under the agreement in a timely manner.

F. EC Enlargement (301-54)

On March 31, 1986, the President announced that he would take action under Section 301 if the European Community (EC) did not rescind certain quantitative restrictions on soybeans and feedgrains in Portugal and if the EC did not provide, by July 1, 1986, adequate compensation for damage to U.S. exporters of corn and sorghum resulting from the withdrawal of tariff commitments and the imposition of high variable import levies on those products in Spain. The restrictions in question were introduced by the EC on March 1, in the context of Spain and Portugal joining the EC.

We held public hearings on proposed U.S. actions on April 21-22. On May 15, the President proclaimed import quotas on certain EC products (certain chocolate, candy, apple juice, certain beer and white wine) under the authority of Section 301 in response to the EC restrictions in Portugal. Those quotas are adjustable to mirror the effects of the EC measures on U.S. exports to Portugal. In the same proclamation, the President also withdrew certain

international tariff commitments (including those affecting certain canned hams, carrots, endives, cheeses, white wine, gin, and brandy), in response to the EC's withdrawal of Spanish tariff commitments on corn and sorghum. However, U.S. tariffs were not increased, pending efforts to negotiate compensation for U.S. claims.

On July 2, the United States and the EC reached an interim solution of the dispute regarding corn and sorghum exports to Spain. The EC undertook to assure that any loss of U.S. exports of corn and sorghum to Spain compared to a monthly average of 234,000 metric tons for the remaining six months of 1986 would be offset by increased access to the EC under a reduced import levy quota. The United States agreed during this period not to increase duties on EC products while the two parties sought a definitive settlement. Despite extensive negotiations throughout this period, the EC was unwilling to compensate the U.S. sufficiently by the agreed deadline of December 31, 1986. Therefore, on December 30, Ambassador Yeutter announced the President's decision to raise duties to 200 percent ad valorem on imports from the EC of the above-listed products on which U.S. tariff commitments were withdrawn in May 1986. He noted that these increases would be effective by the end of January 1987, unless acceptable compensation from the EC could be achieved.

By Proclamation 5601 of January 21, 1987, the President determined pursuant to Section 301(a), (b) and (d)(1), that duties should be increased to 200 percent ad valorem on a most-favored-nation basis on certain specified articles (certain hams, cheeses, endive, carrots, olives, white wines, brandy and gin). (Moreover, the rates of duty for countries not receiving most-favored-nation treatment were to be modified accordingly.)

However, in the event the EC provided adequate compensation for the imposition of variable levies on corn and sorghum imports, or if other circumstances so warranted, the President authorized the Trade Representative to suspend, modify or terminate the increased duties if he determined that such action is in the interest of the United States.

In a Federal Register notice effective January 30, 1987, the Trade Representative noted that the U.S. and EC reached an agreement on January 29, 1987. The EC agreed to provide adequate compensation to the United States at least for the period through December 31, 1990. It further agreed, inter alia, to extend certain tariff commitments, reduce certain tariffs and take steps to assure EC importation of certain quantities of feedgrains from non-EC countries.

Based on these developments and pursuant to the authority delegated to him by the President in the January 21 proclamation, the Trade Representative determined that it is in the interest of the United States to suspend, effective January 30, 1987, the increased duties imposed by Proclamation 5601 on all the articles specified in the annex to that Proclamation.

G. Canada Salmon and Herring (301-55)

On April 1, 1986, Icicle Seafoods, Inc. filed a petition complaining about the Government of Canada's restrictions on the exportation of unprocessed salmon and herring. On May 16, we initiated an investigation and asked for consultations.

We have consulted with the Government of Canada, both bilaterally and under GATT Article XXIII without reaching a mutually satisfactory resolution. Accordingly, we are currently pursuing remedies through the dispute settlement procedures of GATT Article XXIII.

The deadline for the Trade Representative's recommendations to

the President in this case is 30 days following the conclusion of dispute settlement.

H. Taiwan Customs Valuation (301-56)

On August 1, 1986, without any preceding formal investigation under Section 302, the President determined under Section 301 that Taiwan's use of a duty paying list system to calculate customs duties violated a trade agreement and was unjustifiable and unreasonable and a burden or restriction on U.S. commerce.

The President's determination explained that in 1979, the U.S. and many other governments concluded a trade agreement, the Customs Valuation Code, specifying how imports may be valued for purposes of calculating customs duties. The principal undertaking was to calculate customs duties normally using the "transaction value" (ordinarily the invoice price of goods). The Code, which entered into force for original signatories on January 1, 1981, allowed each developing country to delay its implementation for up to five years following the Code's formal entry into force for it.

Taiwan is not a member of either the GATT or the GATT Customs Valuation Code. However, through bilateral exchanges of letters in 1978 and 1979, Taiwan agreed to observe obligations "substantially the same" as those applicable under the Code to developing countries. As a result, it should have implemented substantially equivalent obligations toward the United States effective January 1, 1986.

Taiwan failed to do so. In February 1986 it agreed to do so by July 1, 1986. Instead, it enacted a law effective July 1 under which its customs authorities calculated duties on the basis of a duty paying list system (under which values of imported items were determined administratively), rather than "transaction value" as provided in the Customs Valuation Code.

In his August 1 determination under Section 301, the President determined to retaliate commensurately against Taiwan so long as it failed to meet its obligations in this regard. He directed the tobacco at a higher rate than that applied to domestic products; and allow U.S. products to be sold at all retail outlets where Taiwanese products are sold. Based upon this satisfactory resolution of the dispute, USTR indicated that no further action under Section 301 is planned in this matter.

J. Canada Softwood Lumber (301-58)

On December 30, 1986, without a preceding investigation under Section 302, the United States and Canada concluded a softwood lumber agreement. The Government of Canada agreed to impose a charge of 15 percent ad valorem on certain softwood products exported to the United States. The United States agreed that this charge may be reduced commensurately as the Canadian provinces modify their practices regarding the terms and conditions under which stumpage (standing timber) may be harvested, so as to eliminate the subsidy preliminarily found by the Department of Commerce in October 1986 in a countervailing duty proceeding.

However, the Canadian Government indicated that for administrative reasons, it would be unable to impose and collect the charge on December 31, the first day the charge should have taken effect under the agreement. To avoid any harm to the U.S. industry pending full Canadian implementation of its obligations under the agreement, the President proclaimed under Section 301 a temporary 15 percent ad valorem duty increase applicable to imports into the U.S. of certain softwood products of Canada. As the necessary predicate for this action, the President determined under Section 301 that acts, policies and practices of the Government of Canada

regarding stumpage were unjustifiable or unreasonable and a burden or restriction on U.S. commerce.

In a Federal Register notice effective January 8, 1987, the Secretary of Commerce determined that Canada had begun to collect an export charge on exports to the United States of certain softwood lumber products. Therefore, the Secretary announced the suspension of the additional duty of 15 percent on imports from Canada of such products. On May 26, 1987, the Government of Canada passed legislation providing for this tax.

III. Petition in Response to Which an Investigation Was Initiated

A. India Almonds (301-59)

On January 6, 1987, the California Almond Growers Exchange filed a petition alleging that the Government of India has engaged in practices affecting imports of inshell and shelled almonds that deny rights of the United States under a trade agreement, are inconsistent with a trade agreement, and are unjustifiable or unreasonable and cause a burden or restriction on United States commerce. The practices complained of are quantitative restrictions

Trade Representative to propose an appropriate method for retaliation. However, he expressly noted his strong preference that Taiwan adhere to its agreement.

On August 11, 1986, the Taiwanese authorities agreed to cease this unfair trade practice by enacting new regulations by September 1, to take effect by October 1. USTR confirmed that Taiwan did abolish the duty paying list system, and implemented new regulations effective October 1 conforming to its obligations substantially the same as those applicable to developing countries under the Customs Valuation Code. Accordingly, USTR announced that no further action under Section 301 is planned in this matter.

Since then, USTR has monitored Taiwan's continued compliance with this agreement.

I. Taiwan Beer, Wine and Tobacco (301-57)

On October 27, 1986, without any preceding formal investigation under Section 302, but after extensive fact finding and bilateral consultations, the President determined under Section 301 that acts, policies and practices by the authorities on Taiwan regarding the distribution and sale of U.S. beer, wine and tobacco products were unjustifiable, unreasonable or discriminatory and burdened or restricted U.S. commerce.

In explaining the reasons for his determination, the President noted that in October 1985, the Taiwanese authorities had agreed to provide, within six to twelve months, greater access to their beer, wine and tobacco products market for U.S. exports. Specifically, they agreed to: (1) lift the import ban on beer, (2) allow U.S. products to be sold at all retail outlets where Taiwanese products were sold, (3) permit the retail prices of imports to be marked up at no greater rate than the prices for domestic products, and (4) allow market forces to determine the importation of these products.

However, the President noted, Taiwan had not honored its agreement; it still banned beer imports, allowed higher taxation for imports than for domestic products (thereby increasing the price differential and making imports less competitive), and precluded imports from being sold at all the retail outlets (including hotels, bars and restaurants) where the domestic products are sold. The President determined to take proportional countermeasures against

Taiwan so long as it continued those practices. For this purpose, he directed the Trade Representative to propose appropriate and feasible actions. However, he noted that his goal was elimination of the unfair trade practices.

On December 5, Taiwan agreed to cease the unfair trade practices complained of in this proceeding. For example, it agreed to lift the ban on beer imports; no longer tax foreign beer, wine and on imports of almonds into India, import licensing practices for almonds, and tariffs on almonds.

On February 20, 1987, the Trade Representative initiated an investigation of these practices, and requested consultations with the Government of India. Those consultations were held in Geneva in June under Article XXIII of the GATT and Article 4 of the Agreement on Import Licensing Procedures (Licensing Code). Absent a mutually satisfactory bilateral resolution through these GATT and Licensing Code consultations, the next step is to request the establishment of a panel at the next GATT Council session.

The deadline for the Trade Representative's recommendations to the President in this case is 30 days following the conclusion of dispute settlement.

IV. Petition in Response to Which an Investigation Was Not Initiated

A. Japan Lawyers

On January 16, 1987, 15 individuals identified as U.S. citizens resident in Japan and admitted to the practice of law in the United States filed a petition complaining of lack of adequate access to the legal services market in Japan. The decision whether to initiate an investigation was due by March 2, in advance of the entry into effect on April 1 of Japan's new law partially liberalizing practice rules for foreign legal consultants.

As a result of discussions concerning this law and its implementation, on February 27, 1987, Japan notified the U.S. of conditions under which foreign lawyers will be able to practice in Japan after April 1, 1987. Japan stated that it will implement its law in a way that will permit a significant opening of the Japanese legal services market. Among the major items discussed were the scope of practice permitted U.S. lawyers in Japan, qualification and registration procedures, licensing requirements including the method of counting prior experience, and the staffing of foreign law offices. In previous consultations, the United States and Japan focused on the terms of the Japanese legislation concerning reciprocity, licensing requirements, procedures for admission and discipline of foreign attorneys, use of the name of the home country law firm, and permissible forms of association between Japanese and foreign attorneys.

In view of the intentions expressed by Japan and their anticipated effect in opening significantly the Japanese legal services market, the Trade Representative determined not to initiate an investigation in response to the January 16 petition. The Government of Japan has pledged to consult fully with the United States Government with respect to the operation of the new law and its implementing ordinances, and USTR will pay continuing attention to the realities of market access by United States lawyers to the legal services market in Japan. Thus, the determination not to initiate an investigation was made without prejudice to future petitions concerning such market access problems.

V. Petition in Response to Which a Determination Whether to Initiate an Investigation Was Not Made as of June 30, 1987

On June 11, 1987, the Pharmaceutical Manufacturers Association filed a petition alleging that the Government of Brazil denies product and process patent protection for pharmaceutical products, and that such denial is unreasonable and burdens or restricts U.S. commerce.

The Trade Representative's decision whether to initiate an investigation in response to this petition was due by July 26, 1987. (On July 23, 1987--subsequent to the period covered by this semiannual report--the Trade Representative initiated an investigation.)

Conclusion

There have been no significant developments in other Section 301 proceedings; their status therefore remains unchanged from that reported in previous semiannual reports.

INTELLECTUAL PROPERTY RIGHTS

Question: What advances have been made in the protection of intellectual property rights?

Answer: Over the past year USTR has continued to pursue vigorously bilateral and multilateral efforts to improve protection of U.S. intellectual property. In 1987 we held consultations and negotiations with a large number of Latin American and Asian countries. Consultations with Thailand and Malaysia were in response to petitions filed by U.S. copyright and patent interests under provisions added to the Generalized System of Preferences in 1984. Indonesia and Malaysia in particular have made good progress towards improving copyright protection. Recently, the pharmaceutical industry has filed cases under Section 301 against Brazil and Chile for lack of adequate patent protection. The Brazil case is still pending. Consultations were held in March and a further round of talks is expected in the near future. The Chile petition was withdrawn by the industry, but constructive talks with the Chilean government continue.

Other countries which in the past have been major problems have made significant advances. For example, book piracy has been a major problem in the Republic of Korea. But this past year the Koreans have significantly curtailed sales of unauthorized books. Intellectual property problems are not limited to developing countries. Canada, for example, has had a very restrictive regime on compulsory licensing of pharmaceuticals. In 1987, Canada revised its patent law, substantially improving patent protection for pharmaceuticals. Canada is also in the process of substantially revising and modernizing its copyright laws.

USTR gas also pressed hard to develop through the GATT agreed multilateral rules on intellectual property. Intellectual property is a major topic of negotiation in the Uruguay Round. We have made several submissions, as have all the other major industrial countries, on the type of agreement we feel is necessary to set minimum levels of protection. While it has take some time for us to engage our trade partners, particularly developing countries, on substantive issues, we are now addressing much more directly specific problems and solutions. We expect the GATT negotiations to become much more substantive over the next year, and we fully expect to conclude an agreement on intellectual property at the GATT.

OTHER PERSONNEL

Question. Please provide details for FY 1987 through FY 1989 on the USTR's use of consultants, contractors and detailees, both reimbursable and non-reimbursable.

Answer. The USTR has three consultants that provide support for the GATT and their cost is as follows:

FY 87	FY 88	FY 89
$8,000	$34,000	$34,000

USTR has twenty-two contractors that provide support for

detailed analysis on economics, tariff matters, trade policy, and effects of trade policies. Contractors also provide support in various ways for the USTR's two new computers in support of the GATT and Uruguay Round. Both of the USTR computers have been upgraded and one is now a secure machine. Contractors have supported this process through computer programming, system documentation and updates, operations and maintenance. USTR also uses contractors for support staff in the Geneva office and security backup for the development and update of internal security policies.

FY 87	FY 88	FY 89
$610,000	$670,000	$620,000

Reimbursable and non-reimbursable details provide support for key positions and staff support in both the Washington and Geneva offices. They support the ongoing trade policies and negotiations, plus the GATT and the Uruguay Round. USTR has a total of twenty-seven details at a cost of:

FY 87	FY 88	FY 89
$439,000	$537,000	$512,000

EMPLOYEE EXCHANGE PROGRAMS

Question. Page 92 of your justification cites an accomplishment of establishing formal exchange programs with other agencies of the U.S. government trade community whereby staff are sent to work at USTR. What distinguishes these programs from the temporary use of detailees from other agencies? Programs with State, ITC and Agriculture are specifically mentioned.

Answer. The essential difference is that 1) USTR along with the agency, e.g. State, agrees on the level of position support first and then selects individuals within that position total; 2) more internal competition occurs within the detailing agency prior to selection for the detailee; 3) the individuals selected are (often) part of career development programs in the detailing agency; 4) the arrangement is multi-year; 5) it is non-reimbursable.

Question. Do you have a formal exchange program with the Department of Commerce?

Answer. We have staff detailed to us from Commerce, but not exactly within the framework of the exchange programs described above. Commerce's staff are detailed to us on a reimbursable and a non-reimbursable basis. Some support the Uruguay Round in Geneva. Some work in Washington. We hope to work out a more formal exchange program with Commerce in the future.

Question. Under these programs, have any USTR staff been sent to work in the cooperating executive agencies ?

Answer. No. We may do so in the future as part of our SES candidate development programs. We do have one SES candidate detailed to OPIC.

NO-YEAR APPROPRIATION

Question. Mr. Ambassador, last year in response to your request, we authorized $1,000,000 of your appropriation to remain available until expended. We did that so you can retain savings when the dollar appreciate against the Swiss franc and then spend them when the dollar declines. I note that you want to continue the authority in fiscal 1989. However, you apparently don't plan to realize any exchange savings this year, as the schedules in the Budget Appendix show the full $15,229,000 being obligated in 1988 and nothing carried over. What is the authorization for other than annual appropriation to the USTR?

Answer. $1,000,000

Question. Is it still expected that the no-year authority will not be used in 1988?

Answer. Yes. The dollar has continued to decline. Thus, no savings are expected to be available. When we proposed the authority, we pointed out that it was a long-term solution. In the short-run, we will have to see.

QUESTIONS SUBMITTED BY SENATOR INOUYE

JAPAN/SCUBA DIVING

Question. Does the President's budget request for FY 1989 give you sufficient funds and personnel to respond to sudden problems which might arise during the course of trade negotiations with other countries? For example, it has recently come to this Committee's attention that two ministries in Japan are proposing to change certification requirements for scuba divers in Japan. The net effect of these changes may be to prevent American instructors from training new divers in Japan; they would also steer Japanese tourists in Guam and Hawaii to resorts where Japanese diving instruction was being offered, since American certification would no longer be recognized in Japan. How has your office responded to this issue? Do you have the resources necessary to follow through on such matters?

Answer. Yes, the President's budget for FY 1989 gives USTR sufficient funds and personnel to follow through with problems during the course of trade negotiators with other countries. In response to the issue of new certification procedures for scuba diving training in Japan, we met with representatives of PADI, a scuba diving training company from California whose Japanese affiliate currently holds 60 percent of the Japanese market. They made a persuasive case that the new procedures were being developed without industry input and with the intention of excluding a large portion of the market, including PADI.

On May 9, Joseph Massey, my Assistant USTR for Japan and China, called in First Secretary Nogami from the Japanese Embassy to convey our dismay and concern at what appeared to be a clear violation of the principles laid out in the Government of Japan's July 1985 Action Program. He asked that the situation be rectified immediately. Mr. Nogami expressed surprise and assured Massey that the development of certification procedures with the intent of excluding foreign participation is not allowed under the Action Program. He promised to convey immediately to Tokyo our concerns and report back. We are awaiting Tokyo's response and will follow up as necessary. The U.S. Embassy in Tokyo also has expressed our concern to the Ministry of Foreign Affairs.

CFTA/PACIFIC TRUST TERRITORIES

Question. It has come to my attention that the Free Trade Agreement with Canada does not extend benefits to the American Trust Territories in the Pacific. What is the reason for this exclusion? Does the United States Government have the legal authority to negotiate on behalf of the trust territories and include them in trade agreements that the United States reaches with other nations? Has there been any contact between your office and representatives from American Samoa, Guam, or the Northern Marianas on this issue?

Answer. The U.S.-Canada Free Trade Agreement (FTA) applies only to trade between the customs territory of the United States and the customs territory of Canada. Therefore, as

was the case with the U.S.-Israeli Free Trade Agreement, the U.S. insular possessions and territories were not included.

The U.S. Government does have the legal authority to negotiate on behalf of the territories. We have held discussions with representatives of the U.S. insular possessions and territories to ascertain their specific interests in expanding trade with Canada. We have agreed to approach the Canadian Government on their behalf to seek improved access to Canada for their products.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

U.S. - CANADA FREE TRADE AGREEMENT -- PLYWOOD ISSUE

Preface. As you know, the Canadian Government is protecting its domestic plywood industry by manipulating its "national building codes" to bar U.S. plywood from being used in 80% of the construction projects in Canada.

Question. Are you going to solve this problem before we agree to reduce tariffs on timber products under the FTA?

-- Does the Administration support the effort of Congressman Anthony and others to postpone the tariff reductions on timber products until Canada ceases protecting its domestic plywood market with these "building codes"?

NOTE: Canada disputes that its plywood market is protected, just as it disputed that its timber industry was subsidized. In the case of the plywood building codes, the Canadian Mortgage and Housing Corporation ruled that U.S. made plywood could not be used in any Canadian Government funded housing construction. Even if this ruling is rescinded, U.S. plywood firms fear that the Canadian construction industry will set up private building codes to bar use of U.S. plywood. These are non-tariff barriers and they'll probably proliferate when the tariffs are reduced under the FTA. Now the tariffs are so high that there's not much trade in plywood between the U.S. and Canada.

Answer. Yes. We have agreed with Senator Packwood, Congressman Anthony and others that the tariff cuts on plywood and particle board will not commence until the President reports to Congress that common plywood performance standards have been sufficiently incorporated into building codes in the U.S. and Canada.

QUESTION SUBMITTED BY SENATOR FRANK LAUTENBERG

CFTA/ICE CREAM

Question. Canada recently announced the imposition of import restraints on U.S. ice cream exports.

These restraints are inconsistent with the spirit, if not the letter of the "standstill" commitments made in connection with the U.S.-Canada Free Trade Agreement (FTA) currently awaiting review by the Senate. In addition, these actions are contrary to the very purpose of the FTA and have already exerted a harmful effect on some U.S. businesses that are attempting to export goods to Canada.

Answer. Canada has announced it will impose licensing restrictions this year and a quota next year on imports of certain dairy products, including ice cream. Through the U.S. Embassy in Ottawa, we have officially protested this action, which is already having an adverse effect on U.S. companies. We did state that this action is contrary to the standstill commitment between our two governments.

We also informed the Canadian Government that we question if these restrictions are consistent with Canada's international trade obligations under the GATT and so have requested consultations under GATT Article XXIII as soon as possible to discuss this point.

JAPANESE PATENTS/TELECOMMUNICATIONS

Question. You know of my continuing interest in expanding the protection of intellectual property rights. American innovators have complained that the Japanese patent system deprives them of effective and adequate protection of their intellectual property rights. Do you agree? If so, why? What steps do you plan to take or to recommend in response? Does the Administration plan to initiate a Section 301 complaint if its complaints are not satisfied?

Answer 1. This issue has been raised in a variety of fora, including most recently the April U.S.-Japan Trade Committee meeting in Tokyo. Deputy USTR Michael B. Smith asked MITI to look into a patent disagreement between Fusion Systems, a U.S. company, and Mitsubishi Electric. He also proposed that the USG and GOJ form a working group to look into the Japanese patent system and in particular to address concerns raised by individual U.S. firms. We are in the process now of investigating cases and have found that there may be some barriers built into the Japanese patent system. I am hopeful that we can resolve these concerns in a non-confrontational manner, but if we meet undue resistance we will have to consider other options.

TELECOMMUNICATIONS

Question. Please describe the status of efforts to open markets to telecommunications products. Will this industrial sector remain a matter of continuing concern which will receive the attention and resources of your office? Please provide details on the resource allocations for activities related to opening up telecommunications markets abroad.

Answer. The Office of the U.S. Trade Representative has been active in a number of bilateral and multilateral efforts to open foreign markets to U.S. telecommunications firms.

On the bilateral front, the recently-concluded Free Trade Agreement (FTA) with Canada includes a chapter on trade in services that extends to a wide variety of services sectors, including enhanced and computer services. In order to clarify how the principles of the services chapter apply to enhanced and computer services, a separate annex for this sector was negotiated with the Canadians. This annex provides for (1) national treatment guaranteeing access to and use of the basic telecommunications transport services and (2) implementation of effective "safeguards" to ensure that any monopoly provider of the basic telecommunications service will not engage in anti-competitive conduct vis-a-vis its competitors in the provision of enhanced services. Steps are to be taken to prevent cross-subsidization, predatory pricing and discriminatory access to network facilities and services. This telecommunications agreement should ensure that any market access benefits available to Canadian services providers will also be available to U.S. firms. In addition, U.S. firms should be able to operate in an atmosphere free of anticompetitive behavior.

With respect to equipment in the FTA, the negotiated elimination of tariffs should enhance the competitiveness of U.S. suppliers. Although we were unable to achieve improvements in Bell Canada purchasing practices, U.S. firms have already had some successes in selling to Canadian purchasers outside Bell Canada's jurisdiction. In addition, Chapter VI of the FTA on technical standards covers all products, including telecommunications terminal equipment. The provisions of that chapter go beyond the GATT Standards Code obligations and envision bilaterals in which we seek acceptance of test data.

In Japan, USTR has negotiated an extension of the bilateral agreement on government procurement which requires Nippon Telephone and Telegraph Company to employ open, non-discriminatory procurement procedures. The NTT agreement has resulted in more than one billion dollars' worth of sales by U.S. firms to Japan which otherwise would not have occurred. In addition, at the conclusion of the NTT Agreement, the United States and Japan also issued a Joint Statement on Interconnect Issues. The Interconnect Statement paved the way for the liberalization of the Japanese terminal equipment market. Finally, USTR provided technical expertise to the Market Oriented Sector Selective (MOSS) talks on telecommunications, which also improved market opportunities in Japan.

Within Europe, USTR has worked on two levels, i.e., with individual members states and with the European Commission itself. We have participated in -- and in some cases, led -- consultations with European governments and the European Commission designed to open those markets to U.S. sales. In meeting with individual countries, USTR staff has provided technical expertise on standards- and procurement-related issues. On the Commission level, Deputy USTR Michael Smith has chaired two rounds of consultations in an effort to influence the policymaking process in the internal market exercise. USTR Yeutter has met on several occasions

with European officials to stress the importance of market liberalization and the need to make telecommunications purchasing decisions based on commercial rather than political considerations. In our bilateral discussions at both levels, we stress that European markets must be as open as ours. There appear to be major reforms in progress which we hope will create new market opportunities for U.S. firms.

Finally, in Korea, the meetings of the U.S.-Korea Trade Subgroup have offered an opportunity to raise our telecommunications-related concerns, including Korean local content requirements and other barriers to market entry.

On the multilateral front, USTR has led a U.S. Government-wide effort to promote greater coverage of telecommunications by the international codes on Government Procurement and Technical Barriers to Trade (Standards), under the auspices of the General Agreement on Tariffs and Trade (GATT). In government procurement, the United States is seeking, inter alia, coverage for the major government purchasers of telecommunications equipment. Until recently, these negotiations showed little sign of progress. Developments in the EC's internal market, however, have given a new impetus to the Code negotiations, where, for the first time, the EC and other major trading partners are taking an active role. In the standards area, in 1985, the United States introduced a draft "Multilateral Agreement on Telecom Terminal Equipment." The draft is a model agreement that would open the terminal equipment markets of all signatory countries.

In addition, under the current, Uruguay Round of trade negotiations under the GATT, the U.S. Government, led by USTR, is seeking a GATT framework that establishes broad concepts governing all services trade. Our priority in negotiating a GATT services framework is to develop general principles that will serve to liberalize services trade. These broad concepts are likely to include

(1) national treatment and open market access,
(2) disciplines on the role of monopolies, including their role as a competitor in a market outside their monopoly responsibility,
(3) transparency and non-discriminatory application of domestic regulations, and
(4) procedures for consultations on emerging issues and resolution of disputes, enabling this agreement to be contractually binding.

Once we have agreement on this framework, we will turn our attention to applying these general principles to specific sectors, particularly telecommunications services.

The USTR's office has also been actively involved in the work of the U.S. delegation to the International Telecommunication Union's World Administrative Telephone and Telegraph Conference (WATTC 88), scheduled for November of this year. This office has concentrated on ensuring that any regulatory regimes adopted by the WATTC will not serve as unjustifiable barriers to international trade in telecommunications.

In light of the importance of this sector to the U.S. and world economies and the continuing problems that U.S. producers face in attempting to penetrate foreign markets, we intend to place a high priority on telecommunications trade issues. Numerous USTR resources are devoted to this effort. In addition to individuals who work on country-to-country issues, we have experts on government procurement, standards and the WATTC who are devoting a great deal of time to telecommunications. We are devoting approximately five man-years (out of a total of 140 within the Office of the USTR) to telecommunications matters, including telecommunications relations with our trading partners, GATT Codes, telecom services issues, trade issues raised through FCC actions and overall interagency and government-industry coordination.

QUESTION SUBMITTED BY SENATOR RUDMAN

SECURITY

Question. In 1988 the Congress provided funds to begin implementation of a security upgrade for the USTR and telecommunications operations. The 1989 request includes $200,000 to complete this upgrade. What was the reason for the upgrade, and what will it accomplish ?

Answer. As we pointed out in our testimony for the hearing, the $200,000 will allow USTR to equip the Geneva office with properly protected computer equipment and communications gear to access USTR minicomputers in the future during the Uruguay Round.

Specifically, it will be required to complete the last phase of NSA recommendations which includes installing secure data communications from Geneva to Washington and providing a base of user-friendly secure voice units. Developments in meeting State Department regulations for secure processing and communications result in the following planned expenditures for Geneva. $51,250 is required to purchase communications equipment including 2 tempest multiplexors, 4 modems, 2 KG84's, cabling and installation. $58,000 is needed to significantly upgrade the physical security environment covering alarms, power filtering, KG84 safe and other enclosures in Geneva. $90,750 will fund the acquisition of two tempested personal computers, one for Washington and one for Geneva; 2 tempested facsimile transmission machines for Washington and Geneva; 5 Secure Voice Phone units (STU-IIIs) for Washington and 4 STU III's for Geneva.

SEMICONDUCTORS

Question. Sanctions totalling $164 million remain on Japanese semiconductors imported into this country due to the lack of progress in opening Japan's market to American semiconductors. Has there been any progress in this area recently?

Answer. The objective of the market access provisions of the U.S. - Japan semiconductor agreement is substantially greater market share of the Japanese semiconductor market by foreign semiconductor suppliers. The Government of Japan committed to a gradual and steady increase in foreign semiconductor sales over the life of this agreement, which expires in 1991.

At the time the agreement was signed in 1986, the U.S. share of the Japanese semiconductor market stood at 8.4 percent. For the first six months of the agreement (through March 1987), the U.S. share grew to only 8.6 percent.

Because the President considered this to be inadequate implementation of the agreement, 100 percent duties were imposed on $164 million of Japanese imports (mostly computers).

Following the imposition of the sanctions, the U.S share increased to a peak of 10 percent of the Japanese market in December 1987. The annual 1987 U.S. share was 9.43 percent. The U.S. share has shown no increase since that time.

Thus, the results to date remain well below USG expectations. The Administration communicated this concern to the Government of Japan in high-level meetings in Tokyo in April. Consideration effort with both the Government of Japan and Japanese industry has been spent developing specific programs to the promote market objectives of the agreement. In June, senior executives of the U.S. semiconductor industry and the Japanese electronics industry will meet in Tokyo to discuss specific ideas on how to accelerate foreign market access in the Japanese semi-conductor market.

JAPANESE TRADE POLICY

Question. A recent article in the New York Times by Clyde Prestowitz, a former trade official with the Department of Commerce, charges that the U.S. government has no overall strategy for negotiating trade issues with Japan. He states that we do not choose our issues on the basis of a careful analysis of the relative strengths and weaknesses of American and Japanese industries, but rather on an ad hoc basis.

The U.S. Trade Representative is responsible for establishing the agenda for our trade negotiations with Japan, so I guess Prestowitz is implicitly criticizing the operations of your office. What is your reaction to his comments.

Answer. I do not believe that the facts support Mr. Prestowitz's arguments. This Administration has approached our trade negotiations with the Japanese with considerable planning and preparation and with a great deal of attention to U.S. industry concerns. For example, in 1985 and 1986 the USG identified five sectors in which the U.S. was very competitive internationally but had little success penetrating the Japanese market. We engaged in intensive Market-Oriented Sector-Selective (MOSS) negotiations to eliminate impediments to the Japanese market in these sectors--telecommunications, electronics, forest products, pharmaceuticals/ medical equipment and auto parts. Strict selection criteria were developed to ensure that the most competitive sectors facing egregious barriers were chosen so that USG resources would be deployed most effectively.

In addition to the MOSS talks, the Administration has concentrated its efforts in areas with critical trade implications. Recently, our negotiators have focused their attention on elimination of Japanese barriers to agriculture -- the United States' largest export item -- and on contruction -- an enormous market in Japan that was effectively closed to foreign competition.

In September 1985, President Reagan announced a new tough trade policy to eliminate unfair trade practices around the world. As a result we pursued a number of Section 301 cases with Japan in semiconductors, tobacco products, and leather and leather footwear, again, products in which the U.S. enjoys international competitiveness. This policy has resulted in agreements on tobacco and leather, and sanctions

against the Japanese for lack of market access for foreign semiconductors. We have also brought several GATT cases (GATT 12, leather, beef and citrus) in an effort to resolve market access disputes.

The trade agenda is systematically coordinated through the TPSC/TPRG/EPC process. This is not an ad hoc process. Rather, a significant amount of high-level consideration is given to each issue by the trade agencies.

HISTORY OF TRADE POLICY

Question. A former Deputy Assistant Secretary of Commerce, Clyde Prestowitz, has written a book describing the formulation of trade policy during the early years of this Administration. He charges that the only reason any action was taken to deal with unfair trading practices by Japan was because of strong Congressional pressure. In his book Prestowitz states, "Never once did I hear an economist or a representative of any economic agency speak in favor of granting relief or of taking action to aid a U.S. industry. They sometimes bowed to economic necessity, but never willingly." I'd like to think things have changed. Have they? Do you find that similar attitudes still exist?

Answer. The President's trade policy, announced September 23, 1985, was aimed at opening markets throughout the world, thereby enabling the United States to reduce its trade deficit by increasing exports rather than decreasing imports. This trade policy was composed of three parts: challenging unfair trade practices of other nations, improving the economic fundamentals that govern trade patterns, and negotiating
trade liberalizing multilateral and bilateral trade agreements.

We have been aggressive in our demands for fair trade. Over the last two and a half years we have challenged unfair trade practices 25 times by expediting, initiating or threatening to initiate investigations under Section 301 of the Trade Act of 1974. That approach has achieved important market-openings: cigarettes, aluminum and construction in Japan; beer, wine and cigarettes in Taiwan; motion pictures, cigarettes, insurance and improved intellectual property protection in Korea; and many others. We will continue to use Section 301 whenever it is necessary to end unfair trade practices. The President's long-standing support for free and fair trade is unwavering.

QUESTIONS SUBMITTED BY SENATOR WEICKER

TOBACCO

In 1986, you announced a major breakthrough for U.S. tobacco manufacturers in the Korean market. Many of us questioned at the time how many cigarettes U.S. manufacturers could sell at three times the market price. Sales did not even hit 1% (6/10 of 1%). Now another agreement has been rumored which will cut the price of U.S. cigarettes to $1 a pack, with Korean cigarettes selling up to 81 cents a pack.

Question 11.

a. Has an agreement been reached? Can you tell us the specifics of that agreement?

b. Do you believe this second agreement will result in increased U.S. sales in Korea?

Answer 11. The USG never announced a major breakthrough for U.S. cigarette manufacturers in 1986. The Korean government took a few very timid steps in the direction of liberalizing its cigarette market in 1086. It was an entirely unilateral step. We had no agreement on those steps because we felt that they were totally inadequate. We did not give the Koreans credit - either publicly or privately - for their 1986 "liberalization."

On the other hand, a Record of Understanding concerning market access for cigarettes during our bilateral talks held in the first week of May. The agreement, which will be signed in the next few weeks, provides for non-discriminatory access to the Korean cigarette market for all U.S. manufacturers, including the right to import, distribute and sell imported cigarettes independently of the authority of the Korean Monopoly Corporation. Additionally, the tax on an imported pack of cigarettes will be reduced from nearly one thousand won to 360 won as of July 1, 1988. In addition, our industry will have the same advertising and promotional permission that they enjoy in Taiwan.

Because this agreement allows for more equitable treatment for U.S. manufacturers, we expect a dramatic increase in the share of the Korean cigarette market held by U.S. manufacturers. As a result of this agreement, American cigarette companies should achieve several hundred million dollars of new sales annually in Korea, just as they have with similar agreements in Taiwan and Japan.

PROPOSED PRODUCT BANS

Question. I understand that you have taken an interest in the proposed product bans in Australia, Ireland, and Great Britain that affect UST, a Connecticut company. I appreciate your efforts and look forward to being informed of your progress on this issue.

- What actions has USTR taken on the United Kingdom's proposed ban on imports of certain kinds of smokeless tobacco from the U.S.?

- Have you determined what the United Kingdom's grounds are for distinguishing between various types of smokeless tobacco?

- Are you satisfied that the proposed U.K. ban on only one type of oral smokeless tobacco, moist snuff (the only type made exclusively by foreign manufacturers), is reasonable in light of the regulation's exemption for chewing tobacco and snuff which are traditional British smokeless tobacco products?

- Would you favorably consider a 301 (unfair trade barrier) action alleging discrimination among smokeless tobacco products in the U.K.?

- What is your recent information on the Australian ban of smokeless tobacco?

- What follow-up information have you obtained since your January talks with Mr. Duffy in Australia?

- In bilateral talks last month, did you discuss with the Taiwanese their misclassification of smokeless tobacco as a food product?

- With respect to Korea, I understand that you have just negotiated an agreement regarding a 301 petition alleging discriminatory actions affecting the smokeless tobacco industry? Could the existing agreement be expanded to include smokeless tobacco?

Answer. In the United Kingdom, the Government recently proposed a ban on powdered tobacco for oral use, or "snuff dipping." Our Embassy in London has made a strong demarche on this action, noting that it may discriminate against U.S. products, while leaving similar UK products unaffected. UK authorities assert that studies indicate that "snuff dipping" is more dangerous than other forms of smokeless tobacco use. Firms affected have until May 26 to respond to UK authorities about the proposed ban. Our Embassy in London will continue to monitor the situation and to provide appropriate assistance to U.S. firms.

Possible 301 action alleging discrimination in the UK will depend, inter alia, on whether the proposed embargo is actually implemented and its scope. We would also need to review any evidence that might show that "snuff dipping" is more dangerous than other types of smokeless tobacco.

The Government of Australia has proposed a ban on the manufacture, import and sale of smokeless tobacco products. When I was in Canberra in January, I raised this action with the Minister for Foreign Affairs and Trade, Bill Hayden. Australian authorities insisted that the ban is solely for health reasons and is strongly supported by consumer groups. I also raised the issue of possible discrimination, as there are local products that may be both smoked and used orally to which the ban does not apply.

In follow-up meetings with U.S. Embassy representatives, Australian officials said that since US Tobacco, UST, has brought suit in Australian federal court, they could not respond to the issue of possible discrimination or other questions which are material to the case. In addition to its legal action questioning certain procedural aspects of the proposed ban, UST is also seeking redress directly with the Australian Trade Practices Conference. Our Embassy is

closely monitoring the case and providing appropriate assistance to US firms that may be affected by the proposal.

In Ireland a High Court Judge some time ago declared a ban on portion pack oral snuff to be null and void. Recently, however, the Irish Government proposed a ban on the manufacture, import and sale of all oral tobacco. Our Embassy in Dublin is following the situation there but the ban, still under consideration by the legislature, does not appear to be discriminatory.

Regarding Taiwan, the 1986 agreement to open that market for U.S. beer, wine and cigarettes did not include such products as smokeless tobacco, cigars or pipe tobacco. In upcoming discussions with Taiwanese authorities to expand this agreement, expected in June 1988, we will be pressing for market opening on these products, as well as distilled spirits and brandy.

In the case of Korea, the 301 petition was brought by the Cigarette Export Association because of discrimination against U.S. cigarettes in that market. Thus, the U.S.-Korean agreement on cigarettes addresses only manufactured cigarettes and does not include other tobacco products. Should there be trade issues regarding smokeless tobacco products in the future, we would consider how best to raise them with Korean authorities.

SMALL BUSINESS AND INTERNATIONAL MARKETS

Question. Ambassador Yeutter, as Ranking Member of the Senate Small Business Committee, I am keenly aware of the effect trade barriers have on smaller companies. With so many major issues before you, are you able to adequately address the trade concerns of those industries with less than $5 billion in sales?

Answer. In large part, we are able to address the trade concerns of small business because they are the same concerns that large businesses encounter in their trade. These include tariffs, subsidies, dumping, violations of intellectual property rights, trade related investment constraints, and lack of market access for U.S. service industries.

Often where the size of small business firms constitutes a serious financial disadvantage, especially where the remedy involves costly investigations, small firms may collectively pursue trade remedies through their industry trade association.

We are able to respond to a number of concerns that small businesses call to our attention through letters, telephone calls and office visits. Sometimes, a telephone call to the right person within the U.S. Government solves the problem. Sometimes it takes a cable to a foreign post to sort out the problem, or it may involve a personal intervention with trade officials as part of our periodic consultations with a trading partner.

Question. As you know, Connecticut has many smaller companies that have extensive foreign marketing efforts. What does your office do to assist companies in maintaining existing markets?

Answer. Except where an unfair trading practice is involved, our office is not staffed to help firms maintain their existing markets. The Department of Commerce, however, has a staff of Foreign Commercial Service Officers dedicated to assisting business firms of all sizes in helping U.S. firms of all sizes to gain entry to, and sustain a share in, foreign markets.

Question. In some cases, Connecticut firms export products with the assistance of foreign governments, such as the granting of subsidies to construct a manufacturing facility. In the event that the foreign government were to subsequently propose restrictions upon that company's market, would the USTR take an active role on behalf of the company?

Answer. It is difficult to answer such a hypothetical question since the specific conditions surrounding the subsidized venture are unknown. Nonetheless, where there are grounds for making a case that the government action is unfair, my office would consider what action it could undertake on behalf of the U.S. firm. There is certainly much room for abuse by governments in granting incentives or placing restrictions on foreign investments.

In a more general sense, my office is leading an effort to spell out what are acceptable trade related investment measures with a view to developing an agreement in the Uruguay Round to avoid investment measures that unfairly restrict the flow of investment and related trade flows.

Question. What if the product is not universally popular?

Answer. The popularity of a product is irrelevant in determining whether a trade remedy should be pursued. As long as trade in a product is legal and an unfair or unreasonable practice is impeding access of the product to a foreign market, we would provide every assistance that is within our mandate.

CONCLUDING REMARKS

Senator HOLLINGS. As I indicated earlier, this concludes the Subcommittee's hearing schedule. The staff is directed to complete the hearing record by printing the many statements we received from public witnesses that time did not permit scheduling this year, as well as other relevant material.

Our House counterparts marked up the 1989 Commerce, Justice, State Appropriations Bill on May 5. We understand the full House Appropriations Committee expects to report out the bill May 19, with House floor action scheduled the following week. I will confer with our distinguished ranking minority member and work out our mark-up schedule.

SUBCOMMITTEE RECESS

The subcommittee will now stand in recess subject to call of the chair.

[Whereupon, at 11:40 a.m., Thursday, May 12, the subcommittee was recessed, to reconvene at the call of the Chair.]

NONDEPARTMENTAL WITNESSES

SUBMITTED STATEMENTS

(CLERK's NOTE: The Subcommittee On Commerce, Justice, State, the Judiciary and Related Agencies did not have a public witness hearing for fiscal year 1989. However, interested parties were invited to submit written testimony, which have been printed in the hearing record at this point.

(The statements follow:)

THE OCEANIC INSTITUTE

Statement of Dr. Paul Bienfang
Vice President, Oceanic Institute

Mr. Chairman and Members of the Committee, I appreciate the opportunity to testify before you in support of several funding proposals related to the Fiscal Year 1989 Appropriations Bill.

I am Paul Bienfang, Vice President of the Oceanic Institute, which is located on the island of Oahu in the state of Hawaii.

First, I would like to express the appreciation of the Oceanic Institute to the Committee for its support of the research proposals of the Institute in the Fiscal Year 1988 Appropriations process. The Committee recommended funding for three important programs in the 1988 process, which emerged intact from conference. We know it was a very different process, and truly appreciate the Committee's support.

The proposals outlined herein for Fiscal Year 1989 continue and build upon the work that is currently underway. These modest investments of Federal funds will ultimately create revenues that far exceed the requests on an annual basis. The necessary research, however, must first be conducted in order to realize the potential benefits to the nation. The research we are proposing for Fiscal Year 1989 represents in each instance a logical and scientifically developed progression of investigation that will contribute to our scientific understanding and economic development, and ultimately provide a resource base for better and improved nutrition. In addition, this research package represents collectively a means of commercially developing economic enterprises that will lessen our dependence upon supplies of foreign fish products (including food) that at present contribute to our trade deficit.

APPRISE

For the APPRISE (Association of Primary Production and

Recruitment in Subarctic Ecosystems) program, we are requesting level funding at $900,000.

The program is currently in its fourth field season. The distribution, energetics and feeding of the larval target species--king crab, flathead sole, pollock and pink salmon--continue to be studied in relationship to the primary production generated by the spring bloom and the environmental factors controlling it. Work thus far has met and exceeded all expectations. The prototype ABES (Auke Bay Ecosystem) model developed in 1987 will be retested and expanded as needed to accommodate the larger database.

APPRISE has become a trendsetter for fisheries-oceanography programs. Each year experts invited to review the program's progress praise its unique ecosystem approach. No other description of a fisheries ecosystem is as comprehensive in the variables studied. Work has been conducted in the same fashion for consecutive years so interannual variability can be assessed. We expect APPRISE to make a major contribution to our understanding of the factors controlling larval recruitment. Oceanic variability and long-term climatic trends must be taken into account for effective marine resource management. APPRISE will ultimately provide a powerful tool for future fisheries management.

If the program is to be truly useful, we must ensure equivalency from year to year. As results are analyzed, we learn what information is needed. As the fifth year of field work, Fiscal Year 1989 will be critical. An important part of the final year will be synthesis and analysis of the five year database. Refinements must be made to the final model.

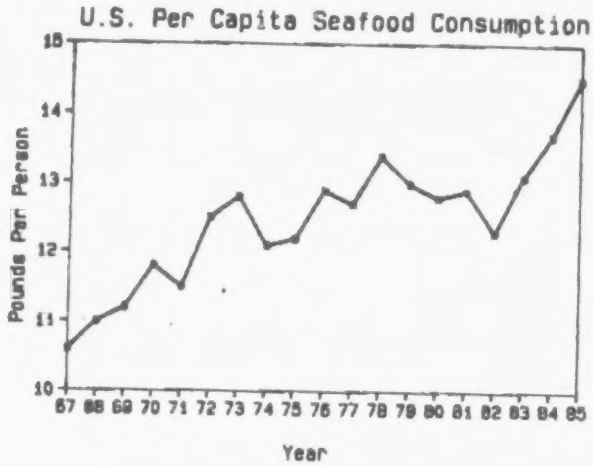
We expect to publish findings and outline methods of extrapolating to fisheries in other locations. This will begin testing the broader applicability of results.

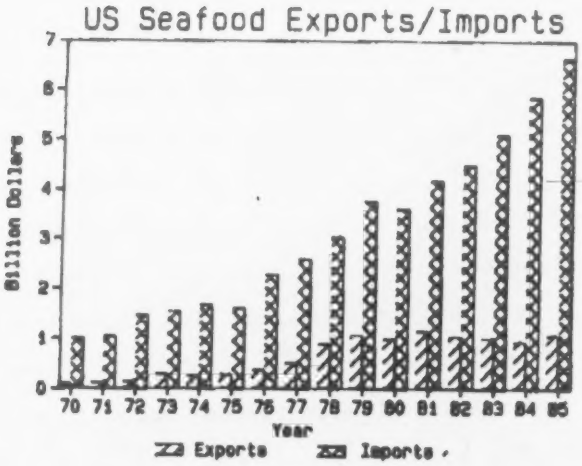
Aquaculture Science Exchanges, U.S./Asia

For the Aquaculture Science Exchange program, we are

requesting a continuation at the Fiscal Year 1988 level: $300,000.

As can be seen in the following figure (adapted from National Marine Fisheries Service, 1985), the national per capita consumption of seafood has steadily grown over the past 20 years. Our supply has not, however, kept pace with this demand, In 1985, well over half per capita consumption of fisheries products was imported. This trade imbalance is illustrated in the following figure taken from a 1986 Circular of the Fisheries Division of the Food and Agriculture Organization of the United States. Our trade





deficit in total fish products was 6.2 billion in 1986 and is estimated to be over 7 billion in 1987 (World Aquaculture News, March, 1988; personal communication, National Marine Fisheries Service, Southwest Fisheries Center, Honolulu Laboratory).

Aquaculture is currently the fastest-growing food production system in our nation. This is partly the result of a growing demand for fish products prompted by health and nutrition concerns and partly the result of large-scale entrepreneurial efforts underway in the business sector. Unfortunately, except for freshwater ventures, practical experience in the U.S. is very thin. Many businesses are failing because they lack knowledge of prudent aquaculture technology. In contrast, the Asian countries of Taiwan, Indonesia and Thailand have centuries of experience in extensive and semi-intensive cultivation of saltwater and freshwater species. We can learn a great deal from these countries by observing their techniques and providing an opportunity for their scientists to observe and advise on ours.

The overall purpose of the Asia Interchange Program is to bring together the expertise of U.S. and Asian scientists in the field of aquaculture. Communication will include personal interchange in the form of site visits, seminars and conferences in both the United States and Asia. Information will be published in a series of reports. Eventually, a literature database will be compiled.

The first year of the program is planned as a prototype. Informal negotiations have been conducted with institutions in five Asian countries: the People's Republic of China, Japan, Taiwan, Indonesia and Thailand. Participating U.S. institutions will include Southeastern Massachusetts University, Scripps Institute of Oceanography, Florida State University and Texas A & M. The Oceanic Institute will serve as managing entity, coordinating visits and seminars and workshops. A Technical Advisory Group will be convened to monitor the progress of the program.

Initially, the AIP will focus on culture of coldwater/temperate marine shrimp. The Asian countries involved have expertise with these species that is not yet available to the United States. The U.S. has culture technology for warmwater species but these cannot be grown in the colder waters of many areas of the United States. Obtaining expert information on culture of coldwater animals is a necessary first step in expanding the base of the U.S. shrimp farming industry. The U.S., in turn, has technology and extensive research publications which may be of use to the Asian scientists.

Candidates for participation will be proposed by the different institutions. Final selection will rest with the Oceanic Institute.

Depending on the outcome of the first year's effort, the program may be expanded to include other technical areas and more participants.

Mahimahi Technology Development

The research relating to mahimahi has progressed from the economic arena to the laboratory. We are requesting a continuation at the Fiscal Year 1988 level of $400,000.

The demand in general for high quality fresh fish shows consistent increases, particularly in the United States, Japan and Western Europe. Assuming per capita fresh fish demand does not change, projected population growth, increases in total disposable income and per capita income will all translate directly into growth in fresh fish demand. The growing U.S. aquaculture industry is helping to meet that demand.

Further support to the commercial sector with research on different species will enable the aquaculture industry to broaden its production base to satisfy different market segments--both the world market and the national. The species we propose to study, the dolphinfish or mahimahi, has already established a market in Hawaii and to some degree the West Coast. A 1984 National Marine

Fisheries Service report on market trends for mahimahi refers to the "quiet explosion" in the fresh mahimahi market.

The mahimahi is a luxury food similar to salmon. The mahimahi has been compared in taste and nutrients to the Dover sole or flounder and in market value to the New England lobster. The fish commands a relatively high price: fresh mahimahi dinner entrees frequently go for over $14.00 in local restaurants. The selection in supermarkets and retail fish shops is severely limited because of the strong restaurant demand. The following table shows the increases in trade and value that have characterized the mahimahi market in recent years.

Recent Trends in Annual Mahimahi Transactions

United Fishing Agency, Ltd., Honolulu, Hawaii*

	Year			
	1975	1979	1980	1981
Total Number	3,918	7,814	8,687	10,957
Total Weight (lbs)	75,965	112,832	142,158	173,135
Average Weight Per Fish	19.39	14.44	16.37	15.81
Total Value	$139,101	$242,407	$341,653	$440,749

* From National Marine fisheries Service, Honolulu Laboratory, Admin. Rept. H-84-9, 1984.

These increases are all the more remarkable because the natural stock fluctuates widely; availability in Hawaiian waters is distinctly seasonal with peaks in abundance during the spring and fall.

Factors accounting for increased demand for fresh mahimahi include:

- A general increase in overall seafood consumption due to health considerations.
- A growing population in Hawaii of people with

preferences for white-flesh fish, including tourists as well as residents.

- The popularity of the "Hawaii" label in mainland U.S. markets.
- Convenient preparation (NMFS, 1984).

Mahimahi is a favored food fish by Hawaii residents and visitors. Fresh mahimahi commands top prices in wholesale and retail markets and restaurants. Much of the demand for mahimahi has been satisfied by frozen imports. In FY87, the Institute began an economic analysis of potential markets for mahimahi. World markets were screened to determine quantities and prices by country, trends in past production and potential markets for fresh Hawaiian mahimahi. Market research in Hawaii and the U.S. mainland was conducted to quantify present consumption and make five to 10-year projections of potential market demand. We are in the process of developing a market plan for mahimahi based on increased production. This information will serve as benchmark for production economics of this valued food fish.

The next step will be mahimahi culture technology. Much of the culture research on mahimahi has been conducted at the Oceanic Institute. Past work has established control of mahimahi maturation and reproduction. A constraint to mahimahi culture has been poor larval survival and inadequate knowledge of culture requirements. In the past year, improvements in larval nutrition, based on enriching brine shrimp, have produced excellent larval survival. We have made progress on developing cost-effective juvenile feeds. The fish grow so rapidly that feed cost is an important issue for commercial viability.

We now plan a comprehensive four phase effort for culture technology development. The first phase will begin with comprehensive documentation of existing technology. Although considerable work has been done on mahimahi culture, no single document combines both research findings and practical culture information. A hands-on manual will be developed to describe

state-of-the-art procedures for growing mahimahi. The second phase will focus on demonstrating culture technology outlined in the manual. Work in this phase will identify prominent culture constraints and subsequent research areas. It will also provide larval, juvenile and adult fish for future research. Support services will include live larval feeds production and broodstock maintenance. Phase 3 will seek to develop: 1) acceptable larval growth and survival, 2) a cost-effective nutritious feed, and 3) an appropriate growout system for this species. Finally, results from Phases 2 and 3 will be used to revise and expand the manual drafted in Phase I. The economic markers for commercial feasibility will be included in the manual as well.

Stock Enhancement

The activities associated with stock enhancement represent the necessary scientific and laboratory-based trials that the State will ultimately implement on a broad scale. We are requesting $750,000 for Fiscal Year 1989.

Pronounced changes in Hawaiian fish populations and landings have been recorded over the last few decades. Coastal fish populations have decreased markedly since 1900 in the Hawaiian Islands. There is compelling need to examine causes and take corrective action. Principal causes for stock depletion are believed to be overfishing and environmental changes.

The State of Hawaii has begun investigating the specific causes for depleted stocks. This investigation, however, will take several years. Studies on mechanisms to counter negative impacts are equally important. Indeed, it may be too late to await complete understanding of causes before taking corrective action, especially for severely depleted populations. Stock enhancement is one of the tools which may be an effective remedy for diminishing fish populations and will be essential for future fisheries management.

Current stock enhancement work is focusing on species selection. Activities encompass five components. The first is

compiling a species priority list. Workshops and distribution of a questionnaire to local experts (recreational and commercial fishermen, marketers, scientists, legislators, interested state agencies, fish economists) will be used to establish the criteria for determining priority species. Criteria will then be weighted and a species pool identified to which criteria will be applied. This information will be documented and sent to the experts for input and review. Species will be prioritized and consensus reached on this list.

The remaining components will work with the top two species. These will be screened for culture capability and their habitat and food requirements. Tagging studies will be done on the larvae; traditional and state-of-the-art tags will be tried and the best one chosen. Marking the fish is essential for evaluation of later stocking efforts. Finally, we will construct a framework for a socio-economic model which will weigh the benefits (both tangible and intangible) against the cost to the state.

Next year's work will be greatly expanded. We plan to focus on production technology, the socio-economic model, enhancement technology, and collaborative efforts. The Oceanic Institute's role in stock enhancement is to conduct the preliminary research. Ultimately, large-scale stock enhancement--from hatchery to release and recapture--will be conducted by the state.

The production technology component essentially will essentially determine culture technology for the species selected. Constraints will be resolved and the target will be the ability to mass produce larvae. This component also includes prestocking management (tagging, transportation, nutrition) and will work with the state to resolve any species-specific problems, such as disease.

Enhancement technology includes stock assessment (to be conducted primarily by the state), pilot release (mark and recapture studies, site evaluation and habitat considerations, and appropriate size at release), public support (awareness,

regulation enforcement) and pre- and poststocking evaluation, including impact on fisheries and landings. Refinements if needed will be made to the method of release.

Collaborative efforts with the National Marine Fisheries Service, the State of Hawaii Department of Land and Natural Resources, and the University of Hawaii will be integral to the success of the program. Advisory groups will be convened to monitor the program's progress.

Mr. Chairman, I thank you again for providing me an opportunity to testify. We would appreciate the Committee's careful consideration of these proposals in your deliberation during the Fiscal Year 1989 appropriations process.

STATEMENT BY

THE PRESIDENTS AND SUPERINTENDENTS
OF THE MARITIME ACADEMIES/COLLEGES

OF

CALIFORNIA, NEW YORK, MAINE, MASSACHUSETTS,
THE GREAT LAKES REGION AND TEXAS

We, the Presidents and Superintendents of the State Maritime Academies/Colleges of California, Maine, Massachusetts, the Great Lakes Region, New York and Texas, appreciate the opportunity to testify relative to the Department of Transportation's proposed budget for the Maritime Administration's (MarAd's) program in maritime education.

We have deeply appreciated this Subcommittee's support in the past and solicit your support of an appropriation that is consistent with the authorization bill, House Bill HR 4200, which supports the State Maritime Academy System. We are deeply concerned that the changes sought by the Administration in the Federal Maritime Education and Training Act of 1980 will reduce our effectiveness, control our admissions and graduation requirements, create unsafe practices, add to the Federal Government's liability and thus limit our ability to attract young men and women for a career in our critical Maritime Industry. The Administration's proposals are more costly to the Federal government and might kill the State Maritime Academies.

You will recall that the President's Budget Proposal for fiscal year 1987 proposed to eliminate all funding for the State Maritime Academies except the Student Incentive Payments (SIP) for Cadets already under contract in the U.S. Naval Reserve/Merchant Marine Reserve. For fiscal year 1988, the President's Budget Proposal recommended total elimination of all funding and the lay up of our training ships upon completion of the in-year training cruises. MarAd's proposals for fiscal year 1989 are to control our admissions and graduation requirements and implement a more costly ship sharing plan which has not yet been established as desirable or feasible. These proposals are obstructive, divisive, and/or are impossible to meet. This year the Administration proposes to:

1) end the U.S. Naval Reserve/Merchant Marine Reserve (USNR/MMR) Student Incentive Program by phasing it out as the moneys are shifted to the Assistance Payment paid to each Academy under a formula yet unspecified,
2) make application for and acceptance, if offered, of a USNR/MMR

Commission a prerequisite to graduation,
3) require, without any analysis and study as to cost-effectiveness and feasibility, that the State Maritime Academies commence more costly ship sharing in late 1989,
4) dictate that graduates may not be awarded degrees by the States until they have passed the Coast Guard license examination, and
5) disallow Federal funds and the use of Federal ships for training purposes if 2) above is not observed.

Through the wisdom of your Committee's recommendations to the Congress the last two years, funding was restored, although at a reduction of 24% over previous years' funding, and the training ships were retained at the deep water State Maritime Academy piers. We ask for your support again so that we can continue this cost-effective system to meet essential national needs. We are seeking an appropriation that is consistent with the authorizing legislation, HR 4200 and specifically are seeking the following actions through your Appropriations Subcommittee.

a) We request a change in the appropriation to $10 million vice the $8 million proposed. This will keep the State Maritime Academy system alive. Eight million dollars is insufficient and represents a 33% reduction over the annual appropriation prior to the recent emphasis on our Nation's deficit.

b) We request that clear guidance be given to MarAd to ensure that ship sharing is studied to determine its cost-effectiveness, desirability and feasibility and that it not be implemented without the approval of the authorizing committees of Congress. Costs should be carefully analyzed. Safety, Federal liability, quality of training and loss of the ships which are critical national assets should also be investigated.

c) We request that the present U.S. Naval Reserve/Merchant Marine Reserve Commissioning Program be left in place and not be phased out until some mechanism for ensuring the availability of an adequate number of trained Merchant Mariners in time of national emergency is worked out.

d) We also request that Coast Guard licensing not be required as a condition for graduation from a State program.

It is relevant to note that the Second Report of the Commission on Merchant Marine and Defense recommended "that the President, through the Executive Branch, should ensure that Federal departments and agencies refrain from any policies and programs that are contrary to the national maritime policy and detrimental to the Maritime Industries."

Despite this recommendation, the Office of Management and Budget (OMB) and MarAd through their present proposals in regard to the State Maritime Academies are attempting to institute policies with no study and on no cost-effective basis that will severely limit the ability of the academies to produce well trained graduates. In fact, these proposals may kill the State Maritime Academy system. We are the recruiters for the Industry and these policies directly impact on our ability to attract the youth of America, the individuals the Commission on Merchant Marine and Defense clearly points out are lacking in the Industry today.

The Commission, as well as the 1986 Navy Merchant Marine Manpower Study and GAO 1986 report on the Ready Reserve Force, clearly points out that unless actions are taken to correct the downward trend, the number of mariners required to be available to man our ships by the year 2000 will be reduced by one-half. Today about half of the American seafarers are at least 50 years of age. Young vital dedicated men and women are needed to replace them.

The Commission on Merchant Marine and Defense states in simple language that there is a need to preserve the capability to train licensed personnel in state training facilities. Why in the name of national interests and security does MarAd attempt to hamper the ability of the State Maritime Academies to perform their mission? Instead of taking action to assist as strongly recommended by the Commission, they do the exact opposite. It is difficult to conceive that the Administration wants to take this action on one hand, while on the other hand, the President himself in the January 1987 report entitled National Security Strategy of the United States specifically cites, "the lack of Merchant Mariners in the near term could impede our ability to adequately project and sustain forces by strategic sealift." (Emphasis added.) As pointed out, the 1986 Navy Merchant Marine Manpower Study and relevant studies find the United States will be critically short of personnel to man just the Ready Reserve Force and U.S. Flag ships by 1992. This finding of a shortfall is made with the assumption that the State and Federal Maritime Academies will continue to produce the present annual output of licensed officers. It would seem the left hand doesn't know what the right hand is doing. The signals are very confusing especially to the Cadets presently enrolled and prospective applicants.

Under the 1980 Federal Maritime Education and Training Act, the Federal Government provides funding to the State Maritime Academies for:

1. A training ship plus ship's maintenance/repair and fuel money when authorized (Great Lakes excluded) to allow our Cadets to meet the Federally mandated "sea time" license requirements.

2. $100K per school for administration of a State Nautical School.

3. Student Incentive Payments ($100/mo) for students accepting commissions in the U.S. Naval Reserve/Merchant Marine Reserve.

The State Maritime Academy system is our Nation's most cost-effective system to produce licensed officers, officers already noted by every study to be in short supply. The President's Budget Proposal intends to put the State Academies on a parity with the U.S. Merchant Marine Academy whose budget this year is proposed at $23 million, producing approximately 200 graduates per year. Over the last several years, the State Academies have produced on the average over 700 licensed officers per year at an average cost of $9 million/year. While the Commission is recommending a reversal of the decline of the Maritime Industry, this cost-effective system will be forced into decline by the Administration's budget proposals.

In a 1985 cost study at New York Maritime, the share of the Federal Government to produce a graduate from the State Academies was 17%, the State's share was 63% and the students 20%. These figures have changed in the last three years. The Federal share has dropped to 12.6% while the student's share has increased to 23.6%. The State share has remained essentially constant at 63.8%. As can be seen, the students have picked up where the Federal Government has declined.

We seriously doubt that MarAd has considered the additional costs that will now be the responsibility of the Federal government and also the additional costs which will necessarily have to be passed on to our Cadets (students).

MarAd's proposed ship sharing order without a feasibility and cost-effectiveness study, provides a total of two training ships to provide a minimum of nine weeks of underway training time for five State Academies, four weeks between cruises for orientation, safety training and necessary voyage repairs, and several weeks for an adequate shipyard availability. MarAd has already admitted the operating costs could be as high as $12 million, <u>$3 million more than is already being appropriated</u>. Depending on the circumstances we can project upwards of $14 million in operating costs. <u>These costs are all speculative and should be addressed in a feasibility study</u>. No corporation would implement a change of this magnitude without a feasibility study as to cost-effectiveness, ability to meet requirements, reasonability, etc. In these times of fiscal restraint, why is MarAd attempting to implement ship sharing without proper analysis?

The sharing of two training ships by five academies which are geographically

widely dispersed and are each dependent upon regular access to a training ship to meet International Maritime Organization and U.S. training and licensing requirements is in our view not feasible. Ship sharing shifts the responsibility of the training ships from the States to the Federal government. MarAd becomes a training ship fleet operator. In our opinion, in addition to not being cost-effective, ship sharing causes many problems. It creates unsafe practices, shifts liability to the Federal government, disrupts our academic institutions and many, many more. These items are highlighted below but are elaborated in Appendix A.

Ship Sharing Problems

Safety is a critical problem. Cadets are the crew and are inexperienced. Cannot take college students out of shore atmosphere and put them on board ship and sail off. Ships at Academy piers are school's main laboratory. Students are familiar with ship they sail.

Proposal is made with little discussion and no cost and comparative analyses of the present system including replacement ships. It is not cheap.

Increased costs of maintaining vessels without cadet-free labor.

Increased cost of permanent Federal crew - wages, overtime, per diem, vacation, travel, medical.

Adds costs for a MarAd management and supervisory staff. MarAd would have to pay for a nucleus shipkeeping staff to supervise ship maintenance and operations and to facilitate the transition of the ship from school to school.

Adds costs of repairs previously done by State cadet and labor force including repair materials previously supplied by the State.

Increases costs of fuel oil to move the ship from academy to academy.

Increases costs because at Federal expense Cadets will be moved from at least one academy to West Coast or vice versa.

Increases costs of consumables which were previously supplied by the States.

Adds costs of insurance for injuries.

Negative impact on student attitude and morale.

Shifts liability from States to Federal government.

Disrupts existing State labor agreements.

Quality of training year round will suffer as ship is main laboratory on the campus, i.e., operating engineroom, cargo gear, ship maintenance, etc.

Proposal has ship touch at each campus a bare minimum time for cadet checkout, presail training, loadout, etc.

Little time between schools for maintenance and required Coast Guard annual inspection. Problem worse in Northeast with three schools sharing one ship. Maintenance and inspection normally takes 2 or 3 months each year; 2 months at sea cruise per school leaves little time for system checkout and loadout.

If ship is delayed in overhaul or has problems, follow-on schools using ship have extreme scheduling problems.

Single ship sharing has been done in past by two schools when a problem has occurred on a particular training ship. It has been almost unmanageable at best, i.e., transferring state owned consumables, moving Cadets, etc.

Retention and maintenance of the existing five training ships on short notice can help meet Navy's troopship requirement for national security. They are maintained by Cadets and cost is shared by States. Ships strategically located around our National sea coast, free pier space, not nested in vulnerable Reserve Fleet. Cost-effective program would appear to accommodate Nation's budgetary problems. The case for necessity of training ships was made in a 1982 DOD Auxiliary Troopship Study.

Marad officials in the current Administration previously stated on 8 February 1984 in a hearing before the House Subcommittee on Merchant Marine, "First of all, let me say that the reviews which were conducted over a year ago about the possibility of consolidating have proven to be unrealistic and unfeasible, and I intend to keep a good training ship for each of the schools." The study referred to is on file in the Maritime Administration's library. Release has been requested under the Freedom of Information Act. To date it has been denied. Is MarAd hiding something?

THERE IS A COST-EFFECTIVE ALTERNATIVE TO MARAD'S SHIP SHARING PLAN.

As discussed in this Hearing last year, in lieu of ship sharing, RAdm J. Ekelund, USN (Ret.), Superintendent at California Maritime Academy, has developed what we believe is a cost-effective plan that meets the needs of the State Maritime Academies and the Federal Government. This plan suits the smaller schools through use of ships in the Ready Reserve Force (RRF), thus ensuring that the smaller maritime academies can have replacement ships. This proposal has been submitted to MarAd resulting in no reaction.

This proposal is based on the assumption that (a) a major concern of the Administration is the ultimate replacement cost of training ships, (b) the Federal Government can make a long-range commitment, and (c) now that MarAd has been given control of the RRF that they would agree to the conversion of some RRF ships in first class condition to training ships with the permanent loss of about 20% of their cargo carrying capacity and the substitution therefore of troop space for 300 to 400 Cadets and staff or that modular conversion is feasible. One ship in the RRF outported in Philadelphia, Pennsylvania, the SOUTHERN LIGHTS, is already configured in this manner.

If these assumptions are valid, then it is possible with an annual budget in FY 90 of $12M declining to a steady state budget in FY 96 of about $6.2M in constant dollars to replace the training ships from government-owned RRF assets and continue replacement ad infinitum and provide necessary funding to the State Maritime Academies. This plan is less costly than MarAd's proposed ship sharing plan.

The ship class looked at by California Maritime Academy was the ex-FREDERICK LYKES, a C-4. The conversion is essentially to #5 hold with two decks added above it. This conversion would cost about $10 million and would provide galley, messing, berthing and sanitary facilities for 300 to 400, additional staterooms, expanded wardroom, sewage treatment, evaporator and air conditioning capacity, lifeboat additions and classroom space.

A major premise of the alternative is that the RRF ships are currently

being maintained and outported at an annual cost of about $1.2 million each, breakouts cost an additional $1 million. After conversion and while being operated as training ships, these same funds would be more than adequate for long-term maintenance. Indeed, savings would be achieved through the free outporting at the academy piers and the Cadet-free labor contributing to ship maintenance.

If you consider that it costs approximately $1 million/year to outport an RRF ship and it costs $1.2 million to activate one ship for an exercise (state academy ships were used twice this past year achieved at a cost of $300,000 each time), a savings of $6.8 million could be realized. We propose a cost-effective plan, a plan that will save funds while MarAd disregards such alternatives and continues to plan for implementation of their more costly proposal.

The funding profile for our proposal is shown in Appendix (B).

In 1987 and 1988, the Administration attempted to eliminate support for students in this program at State Maritime Academies on the argument that the United States had a surplus of trained mariners and that the Federal Merchant Marine Academy meets the national requirements for annual inputs. This was in the face of the GAO, Navy and Commission on Merchant Marine and Defense's pronouncements of projected shortages in licensed mariners and the President's own strategic assessment last year cited a shortage of maritime labor as a growing problem. The President's 1989 budget now proposes to hold all Federal support for the State Academies, including any use of training ships and the funds previously earmarked for those accepting an eight year Naval Reserve obligation, hostage to the requirements that the States establish as a condition of graduation from their Academy that each graduate, among other things, apply for and accept a Reserve commission. We have then gone from none required in 1988 to all are required in 1989. This has been done at no projected saving in funds. Indeed, the costs will have to be much greater because there will be a manifold increase in those serving their obligation who must be paid and trained by the Navy during their years of training obligation. Indeed, the commissioning processing alone will be more costly. The Navy was not in on the planning for this costly proposal.

There must be a hidden agenda here. Is it the hope by OMB that no Academy can install the Reserve obligation as a condition for graduation and make it work? Is it mainly to remove the administrative burden and cost from MarAd and shift it to the States and the Navy? Is it that the Congress might just pass the proposal into law and that the States may then not be willing to impose the demand for Federal service obligation on their tuition and fee paying students?

We think this is a bad proposal. We think it was dreamt up in OMB and did not get much cerebral processing. We think that if it is supported by the Congress in budget legislation, that it will severely reduce the size of the individual State Maritime Academies and thus jeopardize their continued existence at a time when, as the Commission on Merchant Marine and Defense points out, they are needed to produce mariners today and as a resource to be used in time of national emergency to increase the production of officers.

The Merchant Marine Reserve program should remain a volunteer program for those students who are attending State Maritime Academies and paying their own tuition. Freedom of choice is an important concept which should be preserved here.

Requiring all Cadets to apply for commissions will exclude from officer status in our Merchant Marine all citizens who may be too tall, too short, too old or who otherwise are unable to fit within the Navy's commissioning standards - which have been established to meet Navy, not Merchant Marine, needs or simply do not care for an affiliation with the Navy. Many of our Academies have historically attracted larger numbers of so-called "non-traditional" students who are older or otherwise unacceptable for Navy commissions. The physical requirements to obtain a Coast Guard license are much less stringent than those to obtain a commission in the Armed Forces and such a requirements raises questions as to compliance with Section 504 of the Rehabilitation Act of 1973, barring discrimination on the basis of physical handicap, and the Age Discrimination Act of 1975, as amended, barring discrimination against those of age 40 or older. MarAd claims that we will be able to continue accepting such students because "the Navy will reject their applications for commissions" and they will be free of any government obligation. This approach is devious, insincere, immoral and downright foolhardy! How can we propose at the outset of any recruiting activity that the candidate be prepared to sign commissioning application documents knowing them to be false or inappropriate? Beyond these moral and practical issues, however, is the fact that State Maritime Academies exist under law to train officers for the Merchant Marine, not the Navy!

We can understand the interest in making the SIP program more effective, efficient and reducing its administrative burden and could work with MarAd to that end if given the opportunity. The Administration's proposal will not do that and will result in reduced Reserve and active duty accessions from the State system.

Linking a Merchant Marine Reserve Commission to graduation also links it to admissions. By doing so, young men and women who are physically qualified for a Merchant Marine Officer's license but not a Naval Reserve Commission

will in all probability not apply. Merchant Marine Officers' licenses have never been tied to a Naval Reserve Commission. Why start with the recruits when all studies point out they are needed as Merchant Marine Officers now. Why reduce the input? We should be instituting policies that will improve the manning situation, not hinder it.

OMB and MarAd's linkage of the use of a training ship to the Merchant Marine Reserve program by the Administration also is a considerable departure from the previous intent of the Congress. As noted previously, section 1304 of the Maritime Education and Training Act states that the purpose of the academies is to provide instruction to individuals to prepare them for service in the Merchant Marine. Nowhere is a Naval Reserve Commission even implied. As noted in part 310.4(a)(5) of 46 CFR, the ships are specifically provided for the training of licensed Merchant Marine Officers. No mention is made of the production of Naval Reserve Officers. It is urged that the Congress reject that linkage.

MarAd's new proposal to control admissions/graduation requirements for the State Academies, conditioning them to approximate the Federal Merchant Marine Academy, is out of order. Such a provision raises Constitutional questions which under the Tenth Amendment addresses States Rights guarantees. If MarAd was to have its way, it would be imposing an "affirmative obligation" on the States that contains Maritime Academies to train only people who would enter the MMR program. Furthermore, the Federal Government has not pre-empted the States in the operation of State post-secondary educational facilities. It is the prerogative of the States and the Academies' directing bodies, that provide the majority of the funding, to control these requirements. On the other hand, MarAd has every right to control admissions and graduation requirements at a Federally owned, Federally funded and controlled institution. Of course, MarAd can write standards for the State institutions' professional curriculums and sea-time equivalencies for Federal Merchant Marine Officer's licenses; overall academic control is a matter for the sponsoring State.

Levying the admissions/graduation requirement on all Cadets of accepting a commission, if offered, without any quid pro quo such as SIP and without any "enforcer" is folly. Why should Cadets, who receive nothing in kind and who pay for their own tuition, room, board and books, want to become involved with this long-term commitment? This requirement eliminates non-physically qualified applicants who are physically qualified for the Federal Merchant Marine Officer's license but not a Naval Commission. These appear to run counter to other Federal statutes offering protection for the physically impaired and those over 40 years in age, individuals that the Commission on Merchant Marine and Defense notes are sorely required in the Maritime Industry. The States who must maintain the State Academies on a paying basis can not accept requirements which will limit the number of students. This is not a Federal prerogative.

It is a mistake, in our view, to experiment with every aspect of Federal support to the State Academies when the system in being has successfully served industry and the Nation in peace, recession and war and at very low Federal cost for 114 years. We still remain the cheapest way for the Federal Government to achieve all of its objectives with respect to the education and training of licensed Merchant Marine Officers and the development of a Merchant Marine Reserve. As the Commission on Merchant Marine and Defense recommends we should not have policies or new policies introduced which impact on the Maritime Industry. MarAd's proposed changes impact negatively on the recruiting and training baseline of the Industry.

A major objective of this particular Administration is to remove the Federal Government from unnecessary or inappropriate endeavors and return functions to the States. But, does it make sense to modify a true partnership with the States and the Cadets whose cost-share is significantly more than the Federal Government's?

The total number of graduates per year from the six state and regional academies is about 700. From among those graduates who accept Reserve commissions, approximately 80 volunteer for active duty in the Navy or Coast Guard. Each of these accessions is achieved at maximum total cost in Student Incentive Payments of approximately $4,500 over four years, a considerable savings to the Nation over any other source of Mariners fully qualified for immediate sea duty and leadership roles. This is our Nation's most cost-effective commissioning source. For our island nation, so dependent upon the sea and world commerce, this is a very valuable contribution to our security. Our students pay tuition and fees for their education, including training cruises, naval science courses, and attend eleven month academic years which deprive them of the opportunity for summer employment. They earn Federal licenses along with their degrees while in a uniformed and disciplined environment. The respective states and industrial sources contribute the balance of academy expenses over tuition. The Federal Government's share, including student subsidies, ship maintenance and repair and fuel oil, is cost-effective.

This sharing of effort represents one of the best bargains available to the Government, and yet the Administration annually seeks to reduce the maritime education budget by not including or modifying support for the State Academies. This very small savings to the Federal Government imposes a severe training hardship on our institutions while reducing the incentive to develop an adequate number of required Merchant Marine Officers and a Merchant Marine Reserve component of the U.S. Naval Reserve. <u>It runs totally counter to the recommendations of the Commission on Merchant Marine and Defense</u>.

We submit that the continued existence of our State supported institutions

assures our Nation's most economical, cost-effective method of producing Merchant Marine officers. We believe that our students return far more to the economy and the National defense needs of our Nation than they cost and that the survival of the State Maritime Academies is in the national interest. We have been tasked with this responsibility for 114 years.

The Commission on Merchant Marine and Defense, in addressing Maritime Education and Training, expressed great concern for the possible loss of the six State Maritime Academies as a result of lack of Federal support. The Commission stated that the closing of these institutions would eliminate capabilities that could not be easily reconstituted even if in time of crisis. If a United States Merchant Marine is required for national and economic security, the training pipelines must remain open and not be hampered by unrealistic and unfeasible Federal policies. The Commission recommended that the expenditure of Federal funds for the Maritime Industry should be justified and the costs should be borne by the nation as a whole. The United States must take adequate measures to ensure an adequate supply of mariners. Heroic measures will be necessary. Let us reverse these trends by positive government action, not misdirected action.

The youth of our Nation need a clear signal that the Maritime Industry is not dead. They are willing and ready to go to sea. We earnestly request that the opportunity to do so through cost-effective education and training at State Maritime Academies be continued. We also believe this system should not be modified so that it may remain in place for National Security as a necessary expansion base.

We would be pleased to assist you in any studies you may wish to undertake with regard to the issues that we have raised and would be happy to have the opportunity to discuss our situation with you and your staff at your convenience.

APPENDIX (A)

STATE MARITIME ACADEMY SHIP SHARING
PROBLEMS WITH THE MARITIME ADMINISTRATION'S PROPOSAL

Lack of Analysis - The proposal is made with no feasibility study or input from the State Academies or the Department of Defense (Navy). There has been no comprehensive research or comparative analysis with the present system including merits and problems. Alternative and perhaps more cost-effective plans have not been explored. The ability to make shipsharing work in the real world should be considered in a complete feasibility study. MarAd is presently conducting a study but it is an implementation study not a

feasibility study. The feasibility study requested by the House Appropriations Committee during the last session is not being done. MarAd, by edict, plans to commence ship sharing in late 1989. By MarAd's own admission, it is a more costly program. The proposed program is not only more costly to the Federal government but the States and Cadets (students) as well.

Safety - The Cadets are the crew and would be inexperienced. Presently the ship they are going to take to sea is programmed into academic and professional training while the ship is at the campus pier. The proposed plan does not provide adequate time (one month) nor does it consider that during the same period stores must be loaded and the Cadets must move aboard. Storing of the ship requires all hands. Having an alternate ship, if provided, at the campus for training, particularly in regard to the fire safety, damage control and propulsion plant indoctrination, does not help. The Cadets must know where the valves, piping, hoses and equipment are on the ship they take to sea, not the one alongside the pier. You simply can not take college students out of a shore environment, put them on a complex piece of equipment like a ship and sail off.

Also, the plan forces the State Academies to hire temporary licensed officers and crew to replace the present employees who will be laid off as a result of ship sharing. The temporary people will most likely not be familiar with the ship nor the Academies' training methodology, not even the Cadets themselves. The present full time officers and crew are the key to safe ship operations by the Cadets. This situation would be exacerbated if MarAd has an excessive turnover of personnel assigned to the nucleus crew. There is even the possibility that the States will be unable to hire temporary crew because of their concern over sailing a vessel they are not familiar with. There are no other ships in our Nation that operate with up to 500 supervised youths.

Lack of Management Plan to Include Liability - The proposal does not deal with the Federal/State relationship in regard to responsibility, authority and liability. As presently mandated by 46 CFR Section 310.4(a)(5), the Federal Government is not liable for the present ships. The States have responsibility and authority. With a nucleus Federal crew, responsibility and authority are now shared. When the Jones Act is considered, the U.S. Government is open to greater liability.

The training of the Cadets and operation of the ship will most certainly suffer as in some cases Federal employees will have authority over State employees and in other cases it will be the other way around. The personnel practices of the Federal Government and each State do not coincide, not the least of which are grievance procedures and even holidays.

Financial Considerations - Using industry standard base costs for a seven person Federal nucleus crew, crew costs per ship would approximate $2,800/day or $1,022,000 a year. Contractual overtime normally is 60% of base pay. When maintenance and repair and port operations are considered, overtime is about 80% of base or in this case $817,600 more. Thus Federal nucleus personnel costs for the operation of two ships is close to $4,000,000/year especially when travel and per diem for the nucleus crew are considered. When fuel costs, nominally $300,000 per cruise, and consumables and other related cruise costs that the States now cover, plus transportation costs of Cadets and staff to and from the ship, i.e., California to Texas (it costs $177 one way to fly from San Francisco to Galveston, not including bus fares) are added (approximately $300,000) to the average maintenance and repair of the ships, $1.5 million each, there is no cost saving.

Additional costs for placing two ships in proper condition as training ships plus lay up/disposal costs of the present ships have not been considered nor have MarAd's administrative costs for establishing a fleet operations staff ashore.

Costs are also not included to cope with a two ship berthing situation that develops if a State choses to keep another vessel alongside a campus pier. When the training ship arrives for the pre-cruise period, due to the fact that at most campus piers two ships can not be berthed, one of the vessels would have to be berthed or anchored elsewhere. This is a major cost item, even at anchor, as the auxiliary systems must be operational supplying steam and electricity. The ship must be manned with scheduled licensed and documented personnel.

Present five ship funding for maintenance, repair and fuel	$7.5 million
Two ship funding	
Crew	$4.0 million
Fuel	1.5
Consumables and related cruise costs	2.0
Transportation costs	.3
Annual maintenance and repair	3.0
Breakout for MSC exercises (2/year)	2.4
Fleet Operations Staff (MarAd)	.5
Projected Annual Cost	$13.7 million
Layup/Disposal of present ships	$4.0 million

Cadet Costs - Because the sea training period must be increased for the Cadets to become familiar with the ship, their costs will commensurately increase for tuition, where applicable, and board.

Scheduling - Two ship scheduling creates major disruption to academic schedules

for many academies by putting them out of synchronization with high schools (input cohort) and other universities, colleges and community colleges. This affects transfer students in addition to first-time full-time students. Athletic schedules would also be impacted. This type of disruption can severely deter incoming students. They may opt to go elsewhere.

If a ship is delayed in overhaul or has problems, follow-on user schools have extreme scheduling problems due to the chain reaction. There is no fall back position. This situation would delay upwards of 500 to 600 Cadets from graduating on time and affect the required Federally mandated sea time of at least 1,500 Cadets.

Required NROTC cruise periods for the New York and Maine Midshipmen must be considered as Midshipmen must make Navy cruises in addition to their respective Academy training cruises.

The shared training ships will not be available on short notice to meet the Navy's troopship requirement for national security. It is conceivable both could be on a training cruise simultaneously.

Quality of Training - The unavailability of the specific ship that is sailed to be used as a laboratory platform, during the academic year directly affects safety and technical training.

The present tailoring of individual training ships to optimize the Academy's programs would not be possible. The quality of training year round will suffer. States can not put training aids, mock-ups, i.e. gas turbines, boiler simulators, etc., on the ships only to remove them after a cruise. This type of equipment must be used all year. Presently this type of equipment is available on the training ships whether they are at sea or in port. The proposed plan ultimately places MarAd in control of training as they control the ship. In addition, MarAd, because of this proposed control of the ships, could terminate the cost-effective State Maritime Academy system more easily. There is no security for the Academies. They would no longer have control of their programs. They may well decide not to have a program.

Loss of National Asset - The present training ships can on short notice help meet Navy's troopship requirement for national security. They are maintained by Cadets and the costs are shared by the States. The ships can be strategically located around our National sea coast with free pier space, and are not nested in a vulnerable Reserve Fleet. This cost-effective program would appear to accommodate our Nation's budgetary problems. As noted in MarAd's Fiscal Year 1989 budget, it costs approximately $1 million to activate a RRF ship on a 5 - 10 day notice. This past year, New York's

training ship was activated on the same notice time frame at a cost of $300,000 for activation. New York's ship had to be activated as no other troop ship was available for the required exercises on the East Coast. There are none readily available. The Report of the Commission on Merchant Marine and Defense felt so strongly about the utilization of training ships as troopships they recommmended a "procure and charter" program for troopships to meet DOD's seaborne troop transportation requirement. Such troopships would be assigned to the State Academies as training ships. The Commission has also stated that the loss of the training ships to the State Maritime Academies would be devastating.

Under ship sharing the availability of potential readily available military vessels would be reduced from five to two. The vessel availability would be nil thus causing major disruption to the State operated institutions in addition to impacting on National security.

Ship maintenance - The underway maintenance presently accomplished on board would have to be minimized in deference to more classroom and watchstanding training because of the lack of the actual ship alongside the campus pier during the academic year. A large portion of ship painting and other daily maintenance would have to be paid for at market rates to non-cadet labor. The ships assigned would not be new, thus requiring considerable continuing maintenance. Also, the cost-effective Cadet maintenance that is accomplished on the training ships between cruises would not be done as well and there is the loss of the various academy electrical, plumbing, woodworking and machine shops to be considered.

Would Cadets want to work as they do now on a ship that is not theirs? Shipboard priorities would necessarily have to change.

State Responsible Items - The proposed plan would call for accountability of Federal items, many of which previously were state responsibility, i.e. tools, paint, mooring lines, oils and greases, etc. However, it would be virtually impossible to account for State responsible items such as food, navigation training charts, sheets, pillows, blankets, etc. Ordering of these items for cruise would be extremely difficult, considering the short period when the ship is available before cruise due to the lack of knowledge of quantities that would be on board.

Other Issues - Maritime specialist personnel presently assigned to the ships would be terminated (retrenched) bringing in union involvement and State involvement in regard to retraining. This would certainly become an issue for the individual State Congressional representatives.

The faculties and staffs would certainly seek union involvement due to the changes in work schedules, vacation times, etc. Due to required changes

in the contracts and the layoffs of ship personnel currently employed, there will be considerable union involvement.

There will be a negative impact on student morale and attitude.

MarAd's proposed concept is contrary to the National interests.

Appendix (B)

TRAINING SHIP REPLACEMENT PLAN

FUNDING PROFILE (000)

	FY 89	FY 90	FY 91 (3)	FY 92 (4)	FY 93 (5)	FY 94 (6)	FY 95 (7)	FY 96 (8)	FY 97	FY 98	FY 99 (9)
Maintenance & Support	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600	$ 600
Student Incentive Payments	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Fuel	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Ship M&R	6,800	3,030 (2)	3,030	2,030	2,030	1,230	1,230	0	0	0	0
Conversion Fund	(1)	5,770	5,770	5,770	5,770	5,770	5,770	3,000	3,000	3,000	3,000
TOTAL	10,000	12,000	12,000	11,000	11,000	10,200	10,200	6,200	6,200	6,200	6,200

(1) New York replacement commences conversion with funds already appropriated.
(2) New York and Massachusetts ships maintained from RRF maintenance and outporting funds.
(3) FY 91 allows second conversion for $11,540K.
(4) FY 92 second conversion maintained hereafter from RRF maintenance and outporting funds.
(5) FY 93 allows third conversion for $11,540K.
(6) FY 94 third conversion maintained hereafter from RRF maintenance and outporting funds.
(7) FY 95 allows fourth conversion for $11,540K.
(8) Arrived at steady state condition with conversion possible every 4 years.
(9) PATRIOT STATE replaced after 14 years in service and at age 40+.
(10) Ten year cost is $91,200K or less than current average annual cost with 38% savings thereafter.

TESTIMONY OF

DANIEL A. STEIN, EXECUTIVE DIRECTOR

FEDERATION FOR AMERICAN IMMIGRATION REFORM (FAIR)

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, MY NAME IS DAN STEIN AND I AM EXECUTIVE DIRECTOR OF THE FEDERATION FOR AMERICAN IMMIGRATION REFORM (FAIR). I APPRECIATE THE OPPORTUNITY TO SUBMIT TESTIMONY TO YOUR SUBCOMMITTEE IN REGARD TO THE FISCAL YEAR 1989 BUDGET REQUEST FOR THE IMMIGRATION AND NATURALIZATION SERVICE (INS).

FAIR IS THE LARGEST NOT-FOR-PROFIT IMMIGRATION REFORM ORGANIZATION WORKING ON IMMIGRATION ISSUES. FOUNDED IN 1979, FAIR WORKS FOR A STABLE U.S. POPULATION SIZE. TO THAT END, WE EDUCATE AMERICANS ON THE NEED TO STOP ILLEGAL IMMIGRATION, AND KEEP LEGAL IMMIGRATION RATES AT LEVELS CONSISTENT WITH THE NATIONAL INTEREST.

AMONG FAIR'S GOALS:

- EDUCATE AMERICANS ON THE WAY IMMIGRATION POLICY IS SET AND HOW THE PRESENT LAW OPERATES.
- BALANCE THE LEVEL OF IMMIGRATION WITH THE NEEDS OF AMERICA'S POOR AND DISADVANTAGED.
- ENSURE THAT EVERY IMMIGRANT TO THE UNITED STATES IS A LEGAL IMMIGRANT.
- ENCOURAGE A COMPREHENSIVE CEILING ON LEGAL IMMIGRATION FIXED IN ACCORDANCE WITH DEMOGRAPHIC, NATURAL RESOURCE, AND ECONOMIC GOALS OF THE UNITED STATES.
- ENCOURAGE THE U.S. TO MAKE GREATER EFFORTS TO FOSTER POPULATION CONTROL AND ECONOMIC DEVELOPMENT WORLDWIDE, ESPECIALLY IN MAJOR SOURCE COUNTRIES OF LEGAL AND ILLEGAL IMMIGRATION TO THE UNITED STATES.
- ENCOURAGE ASSIMILATION AS A POSITIVE, TRADITIONAL AMERICAN VALUE, AND OPPOSE POLICIES OR PROGRAMS WHICH IMPEDE THAT PROGRESS.
- ENCOURAGE A POLICY THAT DOES NOT RESTRICT OR FAVOR PERSONS ON THE BASIS OF RACE, RELGION, CULTURE, OR NATIONAL ORIGIN.
- ENCOURAGE COMPLIANCE WITH U.S. IMMIGRATION LAW.

FAIR CONDUCTS A HOST OF PROGRAMS TO CARRY OUT THIS POLICY

FRAMEWORK AND IS REGARDED BY MANY AMERICANS AS AN IMPORTANT NATIONAL VOICE ON MANY IMMIGRATION-RELATED POLICY DECISIONS AND EVENTS. IN MOST INSTANCES, THE PERSPECTIVE OF THE AVERAGE AMERICAN FINDS EXPRESSION IN THE VIEWS AND STATEMENTS OF THIS ORGANIZATION.

PASSAGE OF IRCA

WHEN FAIR APPEARED BEFORE YOUR SUBCOMMITTEE LAST APRIL (1987), THE CONGRESS HAD SIX MONTHS EARLIER APPROVED A MAJOR LANDMARK IMMIGRATION BILL, REPRESENTING THE MOST SIGNIFICANT OVERHAUL OF OUR NATION'S IMMIGRATION LAWS IN 35 YEARS. THE IMMIGRATION REFORM AND CONTROL ACT OF 1986 (IRCA) WAS PRIMARILY AN ENFORCEMENT BILL THAT SOUGHT TO CONTROL AND DETER ILLEGAL IMMIGRATION THROUGH INCREASED BORDER ENFORCEMENT AND A SYSTEM OF EMPLOYER PENALTIES DESIGNED TO REMOVE THE MAGNET OF JOBS DRAWING ILLEGAL ALIENS TO THE UNITED STATES. SINCE OUR FOUNDING IN 1979, FAIR HAS BEEN ONE OF THE ONLY ORGANIZATIONS OUT THERE WORKING TO REGAIN CONTROL OF OUR BORDERS THROUGH PASSAGE OF A FAIR, HUMANE, YET NO-NONSENSE, IMMIGRATION LAW. ALTHOUGH WE HAD SERIOUS RESERVATIONS ABOUT THE LEGALIZATION PROGRAM CONTAINED IN IRCA, WE NEVERTHELESS SUPPORTED THE ENTIRE PACKAGE AND URGED ITS PASSAGE BY THE CONGRESS.

THE MESSAGE FAIR CARRIED TO YOUR SUBCOMMITTEE LAST YEAR REMAINS THE MESSAGE I AM DELIVERING TODAY: MR. CHAIRMAN, IN ORDER FOR IRCA TO SUCCEED AS AN ENFORCEMENT LAW, AND BE TAKEN SERIOUSLY BY EMPLOYERS AND ALIENS ALIKE, IT IS UP TO CONGRESS TO PROVIDE THE INS WITH THE FUNDING IT NEEDS TO MEET ITS MONUMENTAL NEW RESPONSIBILITIES. UNFORTUNATELY, FAIR'S ANALYSIS OF THE INS BUDGET INDICATES ALL TOO CLEARLY THAT INS FUNDING LEVELS HAVE NOT KEPT PACE WITH THE DRAMATIC INCREASE IN INS TASKS.

INCREASED INS RESPONSIBILITIES

BEFORE I FOCUS ON THE SPECIFIC AREAS OF CONCERN FAIR HAS

REGARDING INS BUDGETARY NEEDS, I WOULD LIKE TO TAKE A MOMENT TO DESCRIBE SOME OF THE TREMENDOUS RESPONSIBILITIES THAT FACE THE INS. WITH PASSAGE OF IRCA, THE INS' WORKLOAD HAS BEEN VASTLY EXPANDED TO INCLUDE:

- ENFORCEMENT OF EMPLOYER SANCTIONS;
- INCREASED BORDER ENFORCEMENT;
- ADMINISTRATION OF A LEGALIZATION PROGRAM THAT HAS ATTRACTED NEARLY 1.5 MILLION APPLICANTS TO DATE;
- ADMINISTRATION OF THE SPECIAL AGRICULTURAL WORKER PROGRAM;
- ADMINISTRATION OF THE SYSTEMATIC ALIEN VERIFICATION FOR ENTITLEMENTS (SAVE) PROGRAM TO PREVENT ILLEGAL OR INELIGIBLE ALIENS FROM RECEIVING BENEFITS THROUGH FEDERALLY FUNDED ENTITLEMENT PROGRAMS.

THESE RESPONSIBILITIES ARE IN ADDITION TO AN OVERWHELMING WORKLOAD THE INS WAS PERFORMING BEFORE PASSAGE OF IRCA AND CONTINUES TO PERFORM TODAY. THESE RESPONSIBILITIES INCLUDE:

- PATROLING THE 2,000 MILES OF LAND BORDER WITH MEXICO, AND THE 3,750 MILES OF LAND BORDER WITH CANADA;
- INTERDICTING NARCOTICS TRAFFICKERS IN THE INTERIOR AND ON THE BORDER;
- ADMITING OR DENYING 342 MILLION PERSONS AT OUR PORTS OF ENTRY EACH YEAR;
- FOLLOWING UP ON ALL IMMIGRATION-RELATED MARRIAGES;
- MAINTAINING NATURALIZATION RECORDS AND RECORDS ON PERMANENT RESIDENT ALIENS;
- EXTENDING VISAS HELD BY FOREIGN VISITORS;
- DEVELOPING SECURE DOCUMENTS FOR ALIEN IDENTIFICATION;
- DETAINING AND DEPORTING CRIMINAL ALIENS;
- INVESTIGATING THOUSANDS OF VIOLATIONS OF THE IMMIGRATION AND NATIONALITY ACT.
- IMPLEMENTING THE NEW AMNESTY PROGRAM FOR 30,000 POLES, AFGHANS, ETHIOPIANS AND UGANDANS.

INS FUNDING REQUESTS IN FY1987 AND 1988

MR. CHAIRMAN, OVERALL THE INS HAS NOT RECEIVED THE INCREASE IN FUNDING NEEDED FOR SUCCESSFUL IMPLEMENTATION OF IRCA AND THE ADMINISTRATION OF ITS OTHER RESPONSIBILITIES. IN FISCAL 1987,

THE ADMINISTRATION REQUESTED A TOTAL INS BUDGET (INCLUDING IRCA SUPPLEMENTAL FUNDS) OF $731 MILLION, BUT RECEIVED ONLY $650 MILLION. IN FISCAL 1988, THE INS REQUESTED $838 MILLION BUT RECEIVED ONLY $738 MILLION UNDER THE OMNIBUS CONTINUING RESOLUTION. BY OUR CALCULATIONS, WHICH SIMPLY TOTALS UP THE DIFFERENCE BETWEEN WHAT THE INS REQUESTED AND WHAT THEY ACTUALLY RECEIVED, WE ARRIVE AT A SHORTFALL OF $181 MILLION FOR FY 87 AND FY 88.

INS FUNDING REQUEST FOR FY89

ALTHOUGH THE FY1989 BUDGET REQUEST BEFORE US TODAY OF $859 MILLION IS LARGER THAN THE PREVIOUS INS FUNDING LEVELS FOR 1987 AND 1988, IT MUST BE SEEN AGAINST THE BACKDROP OF THE PREVIOUS BUDGET CUTS. TAKEN IN THIS LIGHT, THE FY89 BUDGET FOR THE INS DOES NOT REPRESENT AN ACTUAL INCREASE AND CONSEQUENTLY DOES NOT SATISFY THE MANDATES OF IRCA SUCH AS, FOR EXAMPLE, A 50 PERCENT INCREASE IN THE BORDER PATROL.

A. BORDER PATROL.

MR. CHAIRMAN, THE BORDER PATROL HAS NOT EXPANDED AT THE RATES CONTEMPLATED BY IRCA. IRCA CALLED FOR A 50 PERCENT INCREASE BY THE END OF FY88. INSTEAD, BY THE END OF FY89, THE PATROL WILL HAVE ADDED ONLY 800 ADDITIONAL AGENTS, AMOUNTING TO LESS THAN A 25 PERCENT INCREASE. THE BORDER PATROL HAS SIMPLY NOT HAD THE FUNDING TO RUN ENOUGH BORDER PATROL TRAINING CLASSES TO MEET THE MOORHEAD INCREASE. 9 CLASSES IN FY 87, 14 CLASSES IN FY 88, AND AN ANTICIPATED 29 CLASSES IN FY 89, WILL STILL ONLY RESULT IN AN INCREASE OF 800 AGENTS, WHICH IS AN OPTIMISTIC FIGURE, SINCE HIGH ATTRITION RATES WILL MOST LIKELY REDUCE THIS FIGURE FURTHER.

MR. CHAIRMAN, I'D LIKE TO MAKE ONE POINT ABOUT ATTRITION RATES IN THE BORDER PATROL. WHEN CONGRESS VOTED FOR A 50 PERCENT INCREASE, THEY TOOK THE 3200 ON-LINE FIGURE (I.E., THE NUMBER OF AGENTS ON DUTY AFTER ATTRITION) AND ADDED 50 PERCENT, WHICH IS

1600 AGENTS. FAIR'S CONCERN IS THAT THE 50 PERCENT NET INCREASE INTENDED BY CONGRESS WAS NEVER EVEN AIMED FOR AND CONSEQUENTLY HAS NOT BEEN APPROACHED. TO PUT IT SIMPLY, THE INS NEEDS ENOUGH FUNDING TO RUN ENOUGH CLASSES TO MAKE UP FOR ATTRITION AND ALLOW IT TO MEET THE NET INCREASE CONGRESS MANDATED. FUNDING TO RUN DOUBLE THE NUMBER OF CLASSES IS NEEDED, IF THIS NET INCREASE IS TO BE ACHIEVED.

APPREHENSIONS ARE ON THE RISE AGAIN. INS COMMISSIONER ALAN NELSON STATED IN HIS TESTIMONY BEFORE THIS SUBCOMMITTEE IN MARCH: "BORDER PATROL APPREHENSIONS OF ILLEGAL ALIENS ON THE SOUTHERN BORDER ROSE TO 109,585 IN FEBRUARY, A 17 PERCENT INCREASE OVER FEBRUARY 1987. . . JANUARY 1988 APPREHENSIONS HAD ALSO INCREASED SLIGHTLY, ABOUT 3 PERCENT, OVER 1987. . ." AT THIS RATE, APPREHENSIONS WILL BE WELL OVER A MILLION BY THE END OF 1988, AND WERE IN FACT OVER A MILLION IN 1987 -- 1,158,030 ALIENS APPREHENDED IN 1987 TO BE EXACT. MR. CHAIRMAN, THESE HIGH FIGURES DO NOT REFLECT THE DECLINE IN APPREHENSIONS ONE WOULD EXPECT AFTER PASSAGE OF A MAJOR IMMIGRATION ENFORCEMENT LAW.

ECONOMIC CONDITIONS IN MANY COUNTRIES SOUTH OF THE BORDER ARE DETERIORATING. ATTRITION RATES AMONG BORDER PATROL AGENTS AND TRAINEES IS VERY HIGH -- ESTIMATES RANGE FROM 40 TO 50 PERCENT ATTRITION RATES AT THE GLYNCO FACILITY. IN ORDER FOR THE INCREASE MANDATED BY CONGRESS UNDER IRCA TO BE MET, SUBSTANTIAL ADDITIONAL MONEY IS REQUIRED. THE MEASURE OF THE APPROPRIATE LEVEL FOR BORDER PATROL FUNDING IS WHETHER ILLEGAL IMMIGRATION IS EFFECTIVELY STOPPED. BY THAT MEASURE, WE REMAIN SERIOUSLY UNDERFUNDED.

EVEN MORE DISTURBING, APPREHENSIONS OF CRIMINAL ALIENS BY THE BORDER PATROL ARE ON THE RISE. IN 1987, THERE WERE 15,550 CRIMINAL ALIEN APPREHENSIONS. THIS FIGURE IS EXPECTED TO RISE TO 26,000 CRIMINAL ALIEN APPREHENSIONS IN 1988 -- OVER A 70 PERCENT INCREASE! (SEE ATTACHED CHART).

B. NARCOTICS TRAFFICKERS.

MR. CHAIRMAN, THERE IS GREAT SUPPORT FOR THIS NATION'S WAR ON DRUGS. THOUGH NOT WELL KNOWN, THE BORDER PATROL IS A MAJOR COMPONENT IN THE FIGHT AGAINST DRUGS. BORDER PATROL NARCOTICS SEIZURES ARE UP SUBSTANTIALLY OVER PREVIOUS YEARS. IN FY86, THE BORDER PATROL MADE 1300 NARCOTICS SEIZURES; IN FY87, 2553 SEIZURES WERE MADE, INCLUDING NEARLY 7000 POUNDS OF COCAINE AND ALMOST 200,000 POUNDS OF MARIJUANA. THE BORDER PATROL IS CURRENTLY RESPONSIBLE FOR MORE THAN 60 PERCENT OF THE MARIJUANA AND 57 PERCENT OF THE COCAINE INTERCEPTED ON TEH SOUTHERN LAND BORDER. THOSE INTERESTED IN WINNING THE WAR ON DRUGS SHOULD LOOK AT THE BORDER PATROL AS AN IMPORTANT PLACE TO START.

AS YOU ARE NO DOUBT AWARE, OPERATION ALLIANCE IS INVOLVED IN USING BORDER PATROL AGENTS FOR DRUG INTERDICTION ACTIVITIES ON THE SOUTHERN LAND BORDER. YET AMAZINGLY, CONGRESS HAS EARMARKED NO ADDITIONAL FUNDING FOR OPERATION ALLIANCE'S DRUG INTERDICTION ACTIVITIES. ALL DRUG MONEY THAT CONGRESS ALLOCATED WENT TO DEA AND CUSTOMS. THIS REPRESENTS A GROSS MISALLOCATION OF RESOURCES WHEN ONE CONSIDERS THAT THE BORDER PATROL APPREHENDS TWO-THIRDS OF ALL DRUGS SEIZED ON THE SOUTHERN LAND BORDER. WITH OPERATION ALLIANCE RECEIVING NO DRUG MONEY, THE INS MUST DIVERT FUNDS FROM ITS NORMAL BORDER PATROL BUDGET AT A TIME WHEN IT CAN ILL AFFORD TO DO SO.

C. ENFORCEMENT OF EMPLOYER SANCTIONS.

AS MENTIONED EARLIER, THE CORNERSTONE OF THE IMMIGRATION REFORM AND CONTROL ACT IS A SYSTEM OF PENALTIES AGAINST EMPLOYERS WHO KNOWINGLY HIRE ILLEGAL ALIENS. JUNE 1, 1988 WILL MARK THE END OF THE YEAR-LONG FIRST CITATION PERIOD DURING WHICH EMPLOYERS WERE GIVEN A WARNING FOR THE FIRST VIOLATION. AFTER JUNE 1, 1988, EMPLOYER SANCTIONS WILL BE ENFORCED IN EARNEST.

BY NOW, MOST EMPLOYERS HAVE HEARD ABOUT THE NEW LAW. THE

INS MAILED OUT MILLIONS OF INFORMATIONAL HANDBOOKS AND CONDUCTED AN EXTENSIVE ADVERTIZING CAMPAIGN ABOUT THE REQUIREMENTS OF THE LAW. IN ADDITION, THE INS HAS MADE OVER 650,000 EDUCATIONAL VISITS TO INFORM EMPLOYERS IN PERSON ABOUT THE LAW.

VARIOUS INDEPENDENT STUDIES SUCH AS A GENERAL ACCOUNTING OFFICE REPORT AND A U.S. CHAMBER OF COMMERCE SURVEY HAVE CONFIRMED THAT EMPLOYER SANCTIONS ARE BEING HEEDED BY EMPLOYERS WITH MINIMAL INCONVENIENCE AND NO DISCRIMINATION AGAINST PROSPECTIVE WORKERS.

MR. CHAIRMAN, FAIR WANTS THE EMPLOYER SANCTIONS PROVISIONS TO BE TAKEN SERIOUSLY BY EMPLOYER AND ALIEN ALIKE. IT IS DISTURBING TO LEARN THAT APPREHENSIONS ARE ON THE RISE ON THE SOUTHERN BORDER BECAUSE THIS UNDERSCORES THAT EMPLOYER SANCTIONS NEED TO BE BETTER ENFORCED SO THAT THE SIGNAL GOES OUT TO INTENDING ILLEGAL ALIENS THAT JOBS ARE NO LONGER AVAILABLE IN THE U.S. TURNING OFF THE MAGNET OF JOBS DRAWING ILLEGAL ALIENS HERE WAS ALWAYS THE PURPOSE BEHIND EMPLOYER SANCTIONS.

IN MARCH 1988, THE GENERAL ACCOUNTING OFFICE RELEASED A REPORT SHOWING THAT THE PRESENCE OF ILLEGAL ALIENS IN THE WORKFORCE DO IN FACT EXERT A DOWNWARD PRESSURE ON WAGES AND WORKING CONDITIONS TO THE DETRIMENT OF LOW-WAGE, LOW-SKILLED LEGAL AND NATIVE WORKERS. WE MUST HEED THE PLIGHT OF OUR NATION'S OWN POOR AND UNEMPLOYED, WHICH IS EXACTLY WHY IT IS SO CRUCIAL THAT EMPLOYER SANCTIONS BE ENFORCED IN EARNEST.

D. NO EXTENSION OF AMNESTY APPLICATION PERIOD.

MR. CHAIRMAN, THE HOUSE JUDICIARY COMMITTEE HAS VOTED TO EXTEND THE AMNESTY APPLICATION PERIOD BY ANOTHER 7 MONTHS. FAIR'S MAJOR CONCERN IS THAT THE INS WILL NOT RECOVER THE COSTS IT WILL NEED TO EXPEND (IT COSTS INS $7.6 MILLION PER MONTH TO RUN THE AMNESTY PROGRAM) IF THE AMNESTY PROGRAM IS CONTINUED AND WILL BE FORCED TO USE FUNDING FROM ITS ALREADY LIMITED ENFORCEMI DGET. IN SUCH A CASE, IT IS LIKELY THAT THE ENFORCEMENT OF EMPLOYER SANCTIONS WILL SUFFER AS WILL STAFFING TO THE BORDER PATROL AND OTHER INS ENFORCEMENT ACTIVITIES.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

Ayuda, Inc., The Ethiopian Community Center, Inc., Latin American Youth Center, Mexican American Legal Defense and Educational Fund, NK DOE, JH DOE, TB DOE, KAA DOE, JNU DOE individually and on behalf of all others similarly situated, Plaintiffs, v. Edwin Meese, III, Alan C. Nelson, and INS Defendants.	Civil Action No. 88-0625 SS

DECLARATION

I am William S. Slattery, Assistant Commissioner, Legalization, Immigration and Naturalization Service (INS). My duties include oversight and management of the legalization program created by the Immigration Reform and Control Act of 1986 (IRCA).

I herein state and declare that a twelve-month extension of the application period for legalization would cause irreparable harm to INS for the following reasons:

1. INS expended $88,914,000 in the five months in Fiscal Year 1987 in start-up costs on the Legalization Program and expects to spend $99,872,000 in Fiscal Year 1988 on operating the program. In addition, the projected Federal Bureau of Investigations (FBI) and Social Security Administration (SSA) costs for those two fiscal years total $13,300,000. If the present office levels and staffing level plans and other program costs were continued through a one-year extension, the projected costs would be similar to the 1988 Fiscal Year budget.. That is, the extension costs would be approximately $100,000,000. INS will be operating the application period for lawful permanent status during such an extension, and that would have an additional impact on staffing levels within the legalization offices and the regional processing facilities.

2. Section 245A of the Immigration and Nationality Act (the Act), 8 U.S.C. § 1255a(c)(7), as amended by IRCA, provides that the costs of the Legalization Program shall be covered by application fees. Allowing for the family discount which is incorporated in the fee structure, INS grosses $158.00 per application. Therefore, in order for an extended program to cover its costs, approximately 106,300 people per month or 4,900 per day would have to apply. If this number failed to apply, INS would be required to increase the application fee for phase two of the Legalization Program (applications by temporary resident aliens for lawful permanent resident status) or to fund the shortfall out of appropriate funds.

3. The Legalization Program was structured to operate for a finite period. An extension of this program would require INS to expend Agency resources on massive staffing hires, additional physical space, and maintenance services. Resources that had been earmarked for the application period for lawful permanent resident status would be diverted to cover the extended program. This would have a detrimental effect on the application program for lawful permanent resident status and on those aliens who have already received temporary resident status and are now awaiting the opportunity to move into lawful permanent resident status.

4. INS has expended significant funds to publicize the benefits of the Legalization Program. It is my belief that a one-year extension of the application program would encourage procrastination by possible applicants, and possibly subject INS to further requests for additional extensions of the Legalization Program.

5. To date, the Legalization Program has met the congressional mandate that it be self-supporting. No taxpayer money has been used to operate the program. It is my belief that a one-year extension would not yield sufficient applicants to maintain a self-supporting program, and that INS would be forced to expend appropriate funds or seek supplemental funding to cover the costs of such an extension.

William S. Slattery

WILLIAM S. SLATTERY,
Assistant Commissioner,
Legalization,
Immigration and Naturalization
Service
425 Eye Street, N.W.
Washington, D.C. 20536
(202) 633-3156

CERTIFICATE OF SERVICE

I hereby certify that on this 24th day of March, 1988, one copy of the foregoing Defendants' Memorandum In Opposition To Plaintiffs' Motion For Preliminary Injunction was served upon each of the counsel for petitioners having a separate address by hand-delivery messenger to local addressees and out-of-town addressees by DHL Special Overnight Delivery to:

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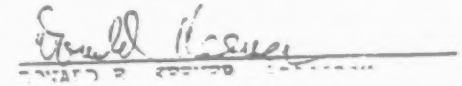
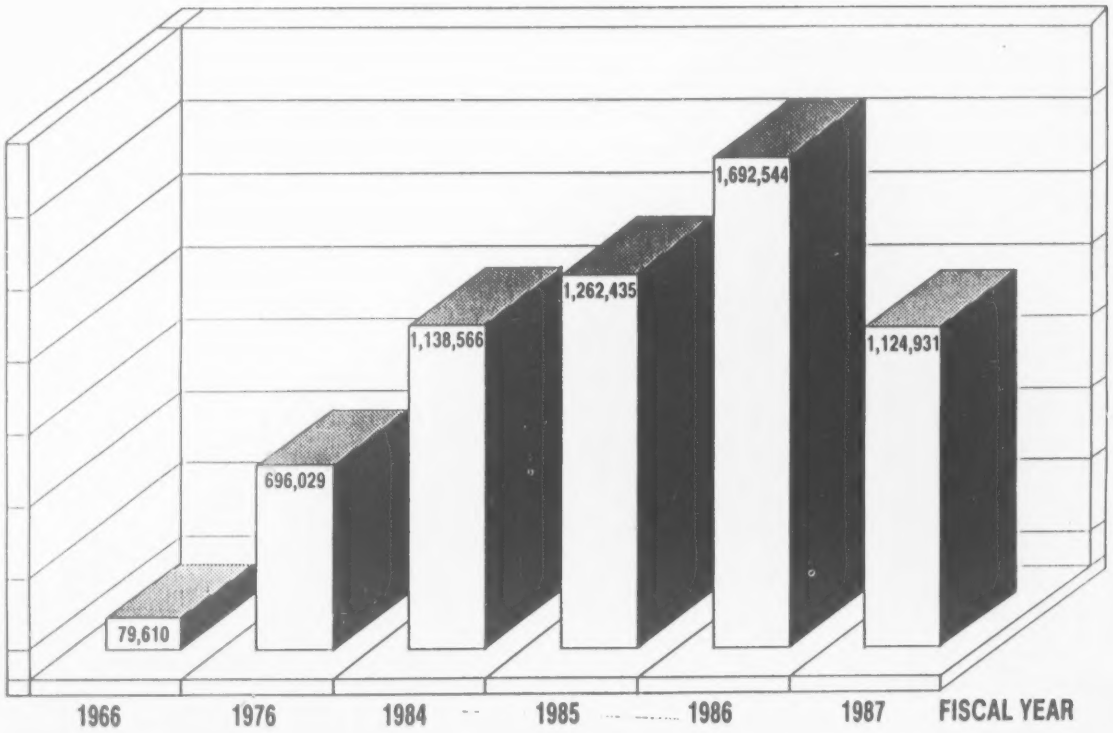


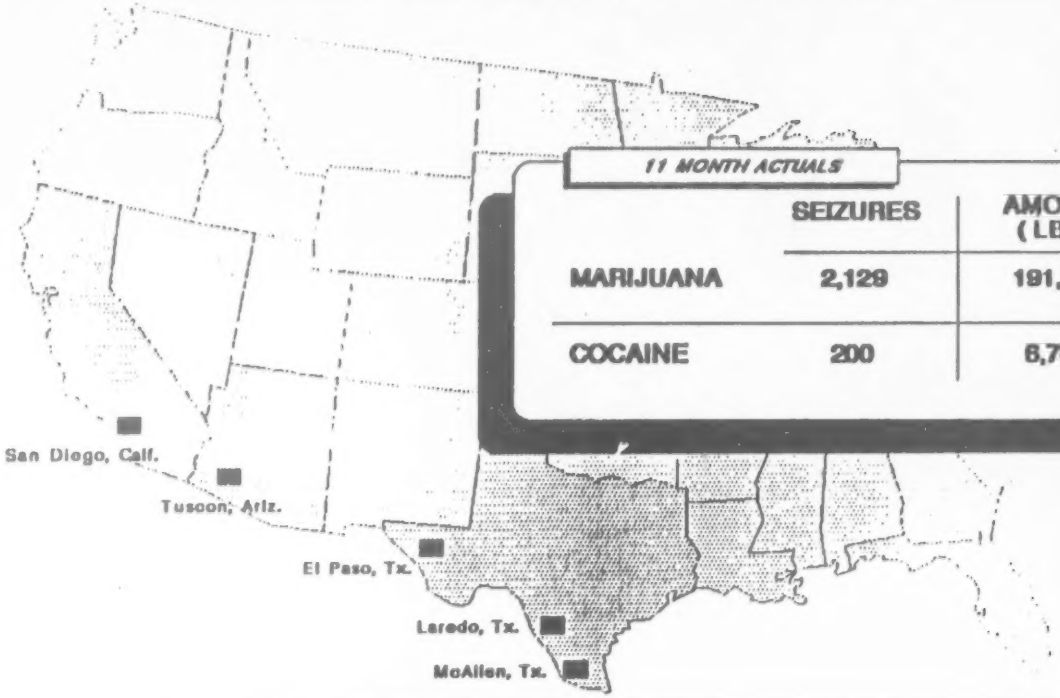
BORDER PATROL APPREHENSIONS

(NATIONWIDE)



IMMIGRATION AND NATURALIZATION SERVICE

Border Patrol Drug Seizures

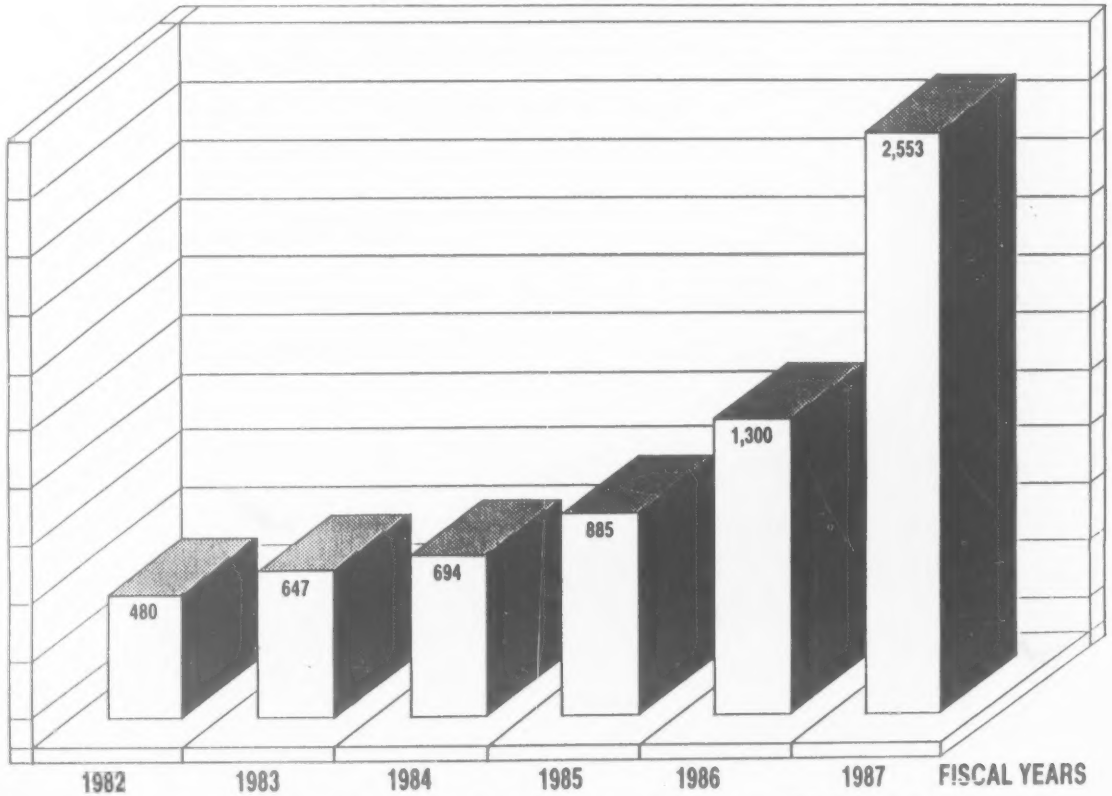


11 MONTH ACTUALS

	SEIZURES	AMOUNT (LBS)
MARIJUANA	2,129	191,113
COCAINE	200	6,767

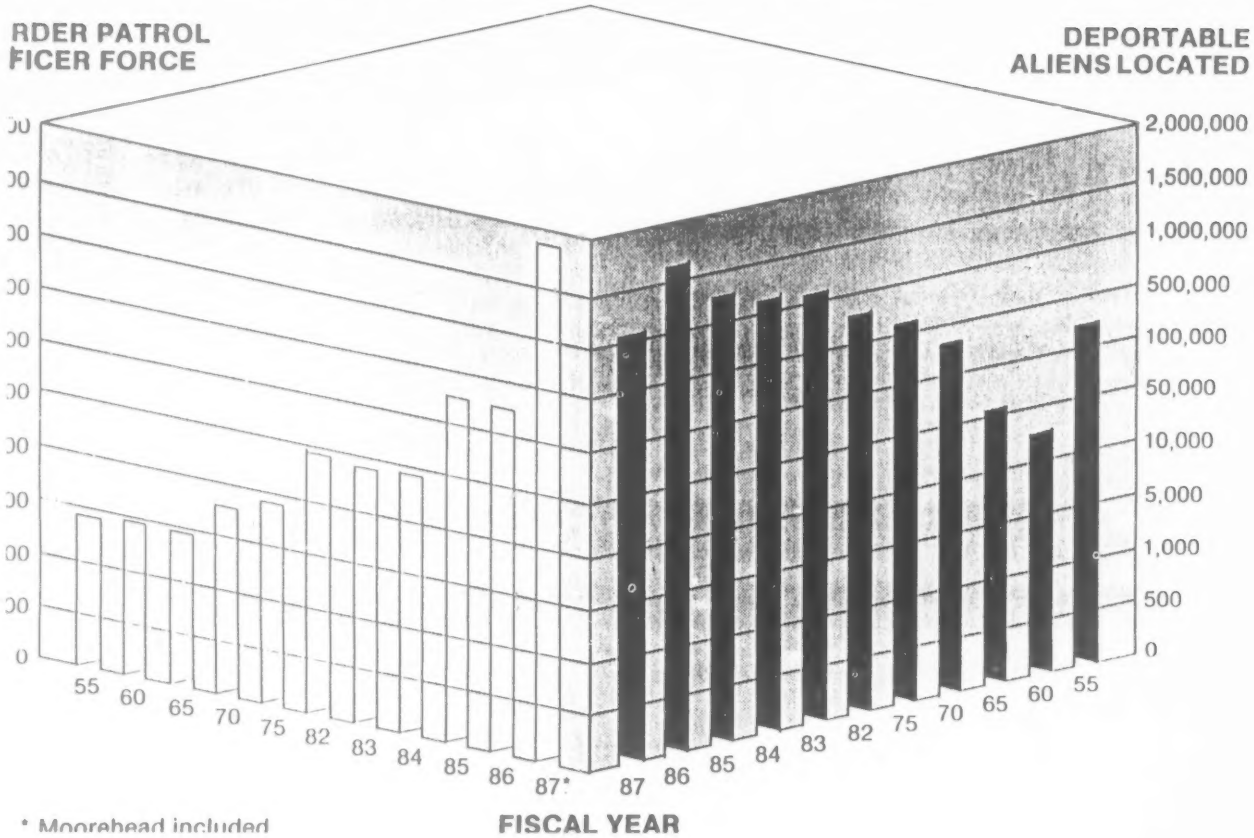
During FY 1987 Border Patrol Seized Sixty Percent of all Marijuana and Forty Percent of all Cocaine Interdicted along the Southern Land Border Between the Ports of Entry.

BORDER PATROL NARCOTICS SEIZURES*



* Narcotics seizures by Border Patrol include nearly 7,000 pounds of cocaine and almost 200,000 pounds of

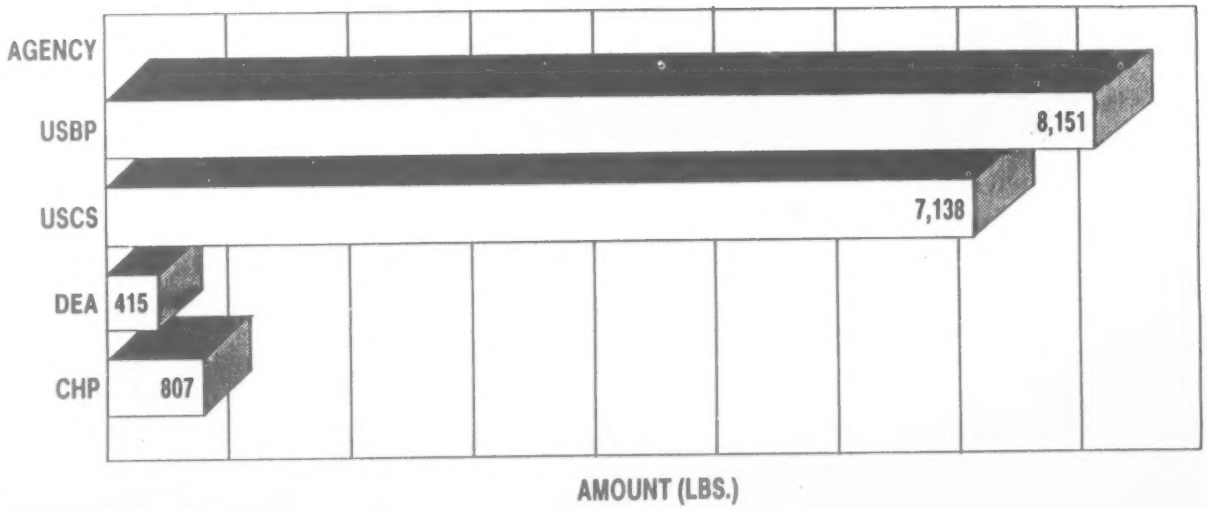
BORDER PATROL, OFFICER FORCE AND DEPORTABLE ALIENS LOCATED



* Moorehead included

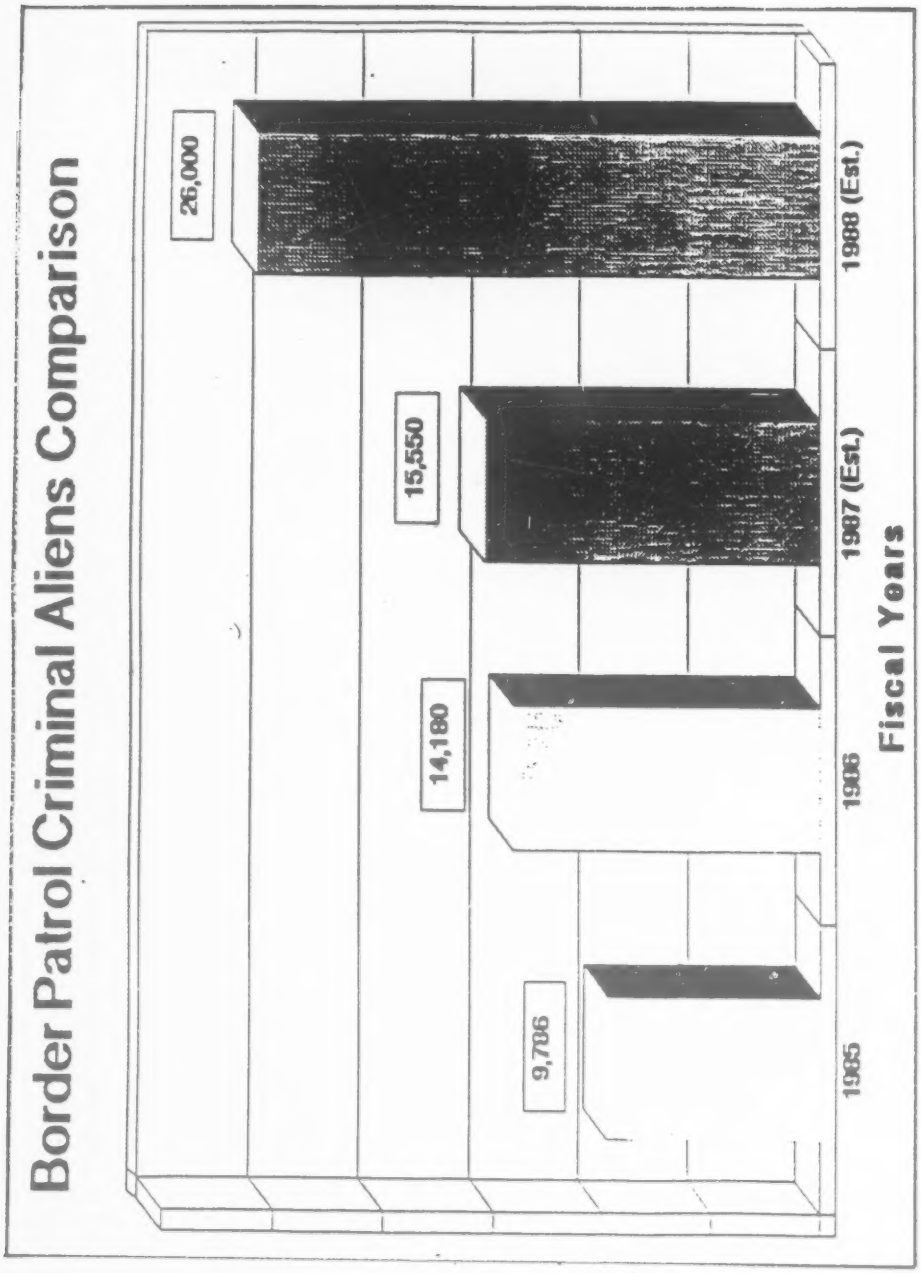
SIGNIFICANT COCAINE SEIZURES*
MEXICAN BORDER

FISCAL YEAR 1987

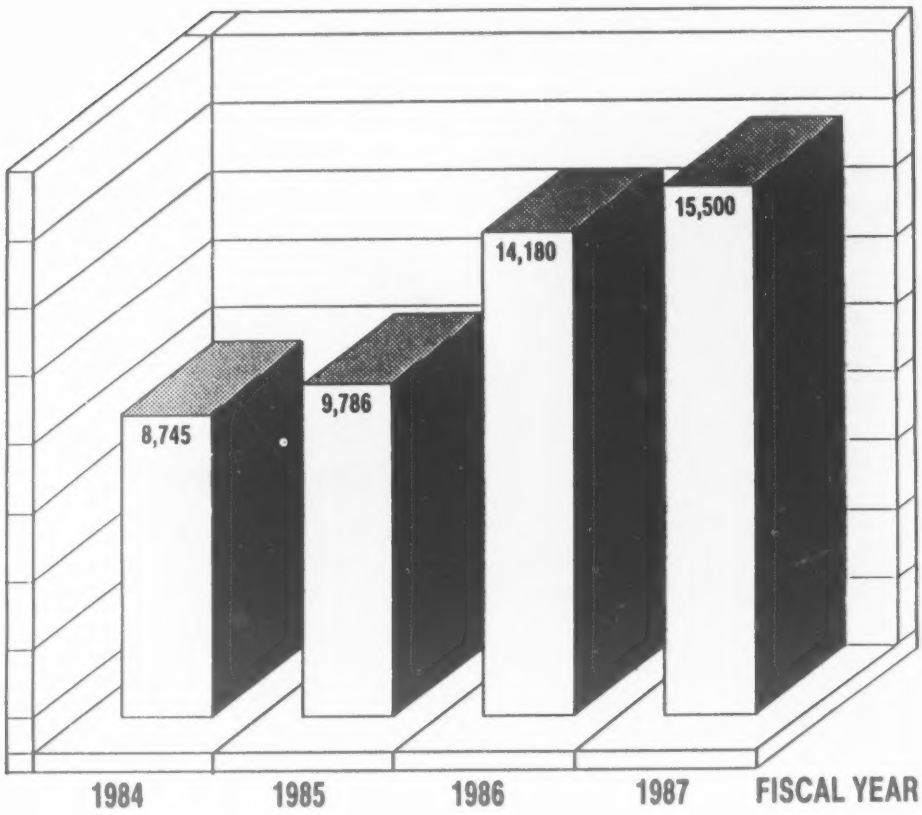


USBP — U.S. Border Patrol
USCS — U.S. Customs Service
DEA — Drug Enforcement Administration
CHP — California Highway Patrol

* Includes only seizures over 400 lbs. or worth at least $5,000,000.


Border Patrol Criminal Aliens Comparison
26,000
15,550
14,180
9,706
1985
1986
1987 (Est.)
1988 (Est.)
Fiscal Years

BORDER PATROL
CRIMINAL ALIENS APPREHENSIONS



Statement of

Paul Ehrlich, MD, MPH
Former Surgeon General of the United States

on behalf of

American Association of Schools of Public Health
American Nurses Association
American Public Health Association
Commissioned Officers Association of U.S.P.H.S.
National Council on International Health
American Association for World Health
American Academy of Pediatrics

I am Dr. Paul Ehrlich, former Surgeon General of the United States, former chief of the U.S. delegation to the World Health Assembly and member of the Executive Board of the World Health Organization and former deputy director of the Pan American Health Organization.

I am pleased to be able to present testimony on behalf of major national health organizations including the following:

American Association of Schools of Public Health
American Nurses Association
American Public Health Association
Commissioned Officers Association of U.S.P.H.S.
National Council on International Health
American Association for World Health
American Academy of Pediatrics

These organizations truly represent American health professionals with respect to issues of public policy affecting US and international health matters. I am confident that the views I am about to present represent the views also of all living former Surgeons General.

That view, simply stated, is that we feel the World Health Organization (WHO) and the Pan American Health Organization (PAHO)--the two international health organizations of which this nation is a founding member--deserve full funding of the U.S. contribution. In the case of both WHO and PAHO, the United States voted for the adoption of their budgets and the corresponding quota assessments. On behalf of the organizations that I am representing, I respectfully request that these assessments be paid in full.

We understand the pressures of the budget deficit and the overall economic concerns affecting decisions related to our fiscal problems. We appreciate the stringencies of the budget process and the constraints facing this Subcommittee and the Congress as a whole. We also know that virtually every witness you hear will appeal for the needs of their particular agency or organization.

We accept that you will be forced to make choices and establish priorities within the appropriations process. But we also know that you have in the past and will this year as well

reflect your best judgment of those priorities with respect to our national interests. And we recognize that over the years, this subcommittee has been well aware of the importance of the U.S. role in international organizations and of the value of PAHO and WHO.

With respect to the value of PAHO and WHO, I would add that the current Surgeon General, Dr C. Everett Koop, has stated his hope "in view of the overwhelmingly serious global health problems, and particularly in view of the needs posed by the AIDS pandemic, that both WHO and PAHO would receive 100% of our assessed contributions. We strongly believe that this is the appropriate level of funding for both organizations."

Similarly, the Secretary of the Department of Health and Human Service, Dr. Otis Bowen has stated, "As you know, we have consistently urged that full funding be restored to both WHO and PAHO...We strongly believe that 100 percent funding is the appropriate level for these agencies in view of their effectiveness, their responsiveness to U.S. interests, and the outstanding work they undertake in improving the health of people throughout the world."

For FY 1989 the U.S. assessment for WHO is $74.7 million and for PAHO, the U.S. assessment is $38.2 million. We are deeply disturbed that the Department of State has not requested full funding; but in the case of WHO, the shortfall in the request is $10 million and in the case of PAHO, $6 million.

Let me offer the specific reasons for our belief that full funding of PAHO and WHO is justified in order to protect the health of U.S. citizens and to advance U.S international health and foreign policy objectives.

First, these two organizations have a direct impact on protecting the health of U.S. citizens--and combatting the AIDS epidemic is only the most visible example of that impact. When PAHO helps southwestern border states map out a strategy together with the Mexican health authorities across the border to prevent the entry of infectious disease or coordinates a Caribbean-wide search for the origin of cases of dengue fever found in this country, it fulfills a role that no US agency can supplant. When WHO collects information on the spread of AIDS and coordinates research and treatment as part of the global strategy for combatting the disease, it helps U.S. health researchers and U.S. health policy makers to reach decisions that save lives in this country.

Second, PAHO and WHO have stressed their fundamentally technical focus, concentrating on their constitutional responsibilities to help all countries protect the health of their citizens. No other organizations have generated such confidence in their technical objectivity in health matters, thus enabling them to overcome nationalistic suspicions. Their record and their international credibility have given them the authority to coordinate actions with the countries of the world and of this hemisphere to combat common health threats such as AIDS.

Third, WHO and PAHO have been the vehicles for the realization of U.S. international health policy objectives for several decades. We can take great pride in the fact that our support of these organizations and our participation in them

have combined to give the US voice enormous strength in defining international health policy.

Fourth, PAHO has been able to extend the reach of the CDC, particularly the U.S. epidemic intelligence service throughout the Western Hemisphere, while WHO provides a global source of epidemiological information.

Fifth, WHO and PAHO offer unmatched opportunities for scientific and health information exchange throughout the region and the world. Those exchanges not only mean the interchange of data and scientific knowledge. They also mean that individuals who are or who certainly will become their nations' leading health authorities will have links to this country's medical corps.

Finally, PAHO and WHO have established exemplary records of management, zero and even negative real growth budgets and fiscal conservatism with particular sensitivity to U.S. concerns. The current Administration along with its predecessors consistently have voted in favor of the budgets of both organizations. Over the past decade, even before the current crisis, PAHO and WHO registered the lowest level of budget growth of any international organizations.

These are the reasons why we believe that the U.S. should provide for full funding for both WHO and PAHO.

Now, let me describe the current financial situation of these organizations.

As of the end of 1987, the U.S. is in arrears to WHO $38.2 million and to PAHO $11.1 million. I would add that the groups I represent, the Surgeon General and the Secretary of Health and Human Services, are also hopeful that the final resolution of the reprogramming of 1988 appropriations for international organizations contains full funding for both PAHO and WHO.

Otherwise, the consequences of reductions, if carried through the year, are quite serious for both organizations. Funding reductions since 1986 to WHO, some passed on to PAHO, as the regional office for WHO in the Americas, and the current arrearages have already affected programs. Those program resolutions would become far more serious if the current proposals for short changing these agencies are not altered.

The following examples illustrate those consequences

Communicable Disease Control:

WHO's activities in support of developing countries for the control of such diseases as malaria, tuberculosis, leprosy and rabies have had to be drastically reduced due to the shortfall in contributions.

One example concerns sleeping sickness, which is a deadly disease affecting 50 million people in sub Saharan Africa. One thousand cases a month are being diagnosed in Uganda alone. The disease also has a devastating effect on animal husbandry with all the negative economic implications. WHO has developed new effective methods of controlling the disease, yet lack of

financial resources is preventing their introduction in large parts of Africa.

PAHO would be forced to reduce technical cooperation for control of vector borne diseases, including surveillance and control of Aedes aegypti and Aedes albopictus, two types of mosquitoes which carry dengue, yellow fever and other potentially lethal viral diseases.

Training, research, and development of guidelines for malaria control and the control of other parasitic diseases would be affected along with prevention and control of AIDS and other sexually transmitted diseases, although every effort will be made to protect these programs.

Maternal and Child Health:

Key efforts in PAHO aimed at promoting better health for women and children of the Region, would be dramatically impacted, including those related to perinatal care, immunizations, and the eradication of polio by 1990. Technical cooperation for the support of national programs for controlling diarrheal diseases, for improving access to oral rehydration salts, for reducing morbidity and mortality from acute respiratory infections and for controlling tuberculosis.

The WHO target of providing immunization to all the children of the world by 1990 will no doubt have to be revised due to the shortfall in contributions. Ten years ago only 5% of the world's children were immunized. Today the figure is more than 50%. Other multilateral organizations as well as bilateral ones have been a great help, but they work mainly through one-time campaigns. Examples from countries show that when they leave the immunization rate goes down again. The children in the USA have benefitted significantly from this program. Only 60% of them received immunization a decade ago. Today almost 100% are covered.

The same applies to the WHO and PAHO programs to control diarrheal diseases, whose targets for reduction of mortality and morbidity from diarrheal diseases are being seriously affected. The economic implications of both diarrheal diseases and diseases preventable by immunization are enormous.

Nutrition:

WHO is working to prevent children in developing countries from becoming blind due to lack of vitamin A, others becoming mentally retarded due to iodine deficiency, and malnutrition from seriously impeding their physical and mental development. WHO's programs to deal with these problems are being seriously affected by the shortfall in contributions.

PAHO would be forced to reduce activities such as dissemination of technical information about how to increase the availability of food and improve the level of nutrition and how to prevent and control specific nutritional deficiencies and disorders, such as vitamin A deficiency, cretinism and goiter. Malnutrition contributes to at least 50% of the infant deaths in the Americas.

Environmental Health:

A cut in the programmable funds of this program category would severely impact PAHO and WHO activities regarding the supply of potable water and the disposal of wastewater and sewage, specifically in the preparation and implementation of projects for rehabilitating and expanding current water systems and extending coverage. It also negatively impacts on the extension of coverage of solid waste disposal services in the marginal urban areas and prevention and control of environmental pollution.

Biologicals:

WHO programs to assure the safety and quality of vaccines to prevent diphtheria, whooping cough and tetanus are being endangered due to the inability to update the 10-year-old requirements, an update made necessary by technological progress. This is particularly important regarding the development of a safer vaccine for whooping cough. The existing vaccine has been associated with one having given rise to serious problems in many countries, leading to reluctance to immunize and consequent increase in the number of cases of whooping cough with all its traumatic consequences for the children concerned.

Laboratory Technology:

WHO has developed manuals for establishing and operating blood transfusion services and laboratories, particularly designed for developing countries. Their use is being inhibited due to a shortfall in contributions. The implications for the control of AIDS are obvious.

Epidemiological surveillance:

PAHO's technical cooperation provided to Member Countries is aimed at training, research and dissemination of information in the practice of epidemiology, including surveillance of communicable and non-communicable diseases. Lack of this critical information jeopardizes the development of national and local health plans and reduces the likelihood of efficient use of already scarce resources.

Cancer:

One of the most serious manifestations of untreatable cancer is intractable pain leading to enormous individual suffering and the anguish of relatives. WHO has established a cancer pain relief program which has been applauded by patients, physicians and nurses, governments and the pharmaceutical industry. Response to the numerous requests for support has had to be drastically curtailed.

Technical Cooperation Among Countries:

A funding reduction would preclude PAHO from mobilizing resources through subregional initiatives, such as "Priority Health Needs in Central America" and the "Caribbean Cooperation in Health." These initiatives have attracted a flow of extrabudgetary resources seventeen times greater than the regular budget funds applied to their development.

AIDS:

The shortfall in the U.S. contribution has reduced WHO's capacity to support all ongoing program activities, including its Global Program on AIDS. AIDS program activities are funded from voluntary contributions; but the AIDS program depends on the infrastructure of WHO and PAHO for support, to field experts and to manage resources. The AIDS program is putting a tremendous strain on the Organization, which is getting weaker each day the U.S. contribution continues to be withheld.

Organization of Health Services Based on Primary Health Care:

A drastic reduction of funds would critically affect the activities of various primary care programs of both organisations, which are directly related to the basic priority health service infrastructure development. Among the affected activities for 1988 and 1989 will be:

a) the strengthening of local health systems, which is the only practical approach for extending coverage to more than 30% of the population in Latin America who do not now have regular access to health care;

b) the development of national capabilities for strengthening laboratory services, such as those required for AIDS testing and other critical diagnostic support;

c) the provision of technical advice to Member Countries in the production and quality control of drugs, vaccines and other biologicals;

d) disaster preparedness; and

e) the development of systems to supply essential drugs and other medical necessities.

From this partial list, it is evident that these reductions in United States support will cut crucial programs. The capabilities that have taken 40 or more years to create can be crippled in a short time. We strongly urge that the U.S. meet its obligations and provide 100% of its assessed quotas to both WHO and PAHO. We believe that funding is vital to the well-being of the people of the United States as well as those in the developing nations of the world.

Edward L. Miles
Director
Institute for Marine Studies
College of Ocean and Fishery Sciences
University of Washington

My name is Edward L. Miles, I serve as Director of the Institute for Marine Studies at the University of Washington and I am appearing as an outside witness on behalf of eight university marine affairs and resource management programs in the United States. The programs for which I am authorized to speak are at the University of Washington, Oregon State University, University of California at Santa Barbara, University of Miami, University of Delaware, University of Rhode Island, Woods Hole Oceanographic Institution, and the Massachusetts Institute of Technology.

Our focus of interest within the Marine Science Technology, and Policy Development Act of 1987 is Sec. 211: Marine Affairs and Resource Management Improvement Grants. But, before I explain the rationale underlying our strong support of this Act, I should like to make three points. First, we support the initiative of the Marine Affairs and Resource Management Improvement Grants as an add-on to the core Sea Grant Program budget. Secondly, we support a significant increase in Sea Grant core funding. Thirdly, even though I am speaking here for only eight institutions, we think that this new program should be open to all Sea Grant institutions on a competitive basis according to criteria and procedures to be developed, based on the provisions of the Act.

We support the concept of Marine Affairs and Resource Management Improvement Grants because we think that this program responds directly to critical national and state needs which we currently face. Universities have a considerable part to play in responding to these needs and this program would significantly strengthen our capabilities to respond.

What are the needs?

In the first place, the United States currently does not have an integrated or coordinated national ocean policy and does not have the necessary institutional infrastructure which would be able to formulate and implement such a policy. Thirteen years ago the GAO made this same point in a very telling Report. In 1975, having surveyed the field, the GAO found a high degree of institutional fragmentation to the extent that marine activities were scattered across twenty-one organizations in six departments and five independent agencies. This fragmentation, said the GAO, generates excessive duplication and precludes the development of a comprehensive, coordinated national ocean policy.

Thirteen years later we are worse off than we were before because the rudimentary infrastructure which did exist has become diluted and the nation has turned away from a priority focus on the ocean. This has occurred just at the time when the United States and other coastal states in

the world have gained significant authority over the Exclusive Economic Zone and there is a pressing need to define priorities for development and resource management as well as policies to ensure the preservation and protection of the marine environment. We are therefore wasting the opportunity which now exists to make significant strides forward in the utilization of resources and opportunities on the ocean frontier.

The United States desperately needs long-term research on national ocean policy issues. Failing this, policies enacted can only be ad hoc and uninformed by understanding of cause and effect, of linkages between different ocean uses and courses of action. As a result, these policies can create more problems in the long run than they resolve. We are sorely lacking basic understanding of the dynamics of many of these policy issues partially because information and circumstances change so rapidly and there is no accompanying work to keep abreast of the changes, and partially because they are so complex, they need more than short-term consulting contracts currently available to untangle the web of variables to enable us to formulate options for policies. We had built a respectable community of scholars at the university level during the seventies who were producing students for positions of leadership in policy areas of the government and industry. The flow has now been significantly reduced. The investments of the seventies in marine policy networks, in building foundations for understanding our rapidly changing world, have badly eroded and are in sore need of rebuilding. The Marine Affairs and Resource Management Improvement Grants will be an effective catalyst both for increasing awareness of these needs and for providing the funding to begin walking the long road back.

It is important to point out that the existing Sea Grant program cannot meet these program development needs as Sea Grant funding is normally available for research project support on a project-by-project basis, not for institutional program development assistance as is envisioned in the Act. The existing Sea Grant funds, too, are already heavily over-subscribed--funding pressures in recent years have forced many very desirable research projects to be slowed, curtailed, or not funded at all. Thus, new funding, albeit only for two years, is needed to enhance the teaching and research of ocean and coastal policy studies.

Coastal states within the United States also have pressing needs as well and these are exacerbated by the incoherence in policy development at the national level. The real issue is how do we provide for balanced use of resources in our coastal and ocean environments in the face of the inevitable conflicts and disagreements that will emerge between different users and between states and the federal government. But who sets the balances and on what basis are these difficult policy decisions made? How is the national interest in increasing the supply of domestic oil and gas equated against the state and local interest in protecting and enhancing the state's fisheries resources? How can all of the affected interests be equitably incorporated into a decision-making scheme and still have the system produce a decision in a finite length of time?

We as a nation need a growing cadre of trained marine affairs professionals to help deal with these issues. These individuals must be knowledgeable in marine science, engineering, management, policy and law, and must have excellent communication and problem-solving skills. They are needed to manage both the day-to-day affairs of responsible coastal development and governance, as well as to bring together the wide range of specialists from other fields who will be needed to help deal with the ever-changing ocean and coastal problems of the future.

There are a number of modest, successful marine affairs programs in the U.S., training professionals in ocean and coastal resource management and policy. These programs are often associated with universities with strong marine science and Sea Grant programs. Sea Grant, in fact, has been instrumental in helping to start many of these programs. Some no longer depend on Sea Grant, but support from other sources has been limited. Generally, Marine Affairs programs in the U.S. are underfunded, inadequately staffed, and have little state or private financial support. Nevertheless, graduates of these programs have had and are continuing to have a positive impact on the development and management of ocean and coastal resources. But much remains to be done.

The Marine Affairs and Resource Management Improvement Grants Program is likely to have a major, catalytic effect on the situation described above because it will provide funding, on a competitive basis, to allow the Universities to begin to face up to critical infrastructure problems like faculty development, student support and launching long-term research projects. Since the money will be limited, it will force attention to the setting of priorities. Since the support will not be tied to short-term contract research, it will facilitate institutional development beyond the amounts allocated because these grants can be used to leverage increased support from state, university and private sources.

In summary, the significant national dividends that will result from the Marine Affairs and Resource Management Improvement Program are: (1) reestablishment of a network of marine policy and management specialists and generalists focusing attention on critical issues facing the United States, (2) an increase in the cadre of trained professionals to do the job in state and federal government, and private industry, (3) the stimulation of research on alternative approaches for developing a coordinated, comprehensive national ocean policy for the United States.

Ronald Kokinda

Thank you, Mr. Chairman, for the opportunity to testify before you today. I want to focus my testimony on the National Endowment for Democracy (NED), its secret government counterpart known as Project Democracy, and their corruption of our institutions of government, the Department of Justice especially.

The National Democratic Policy Committee (NDPC) testified before this committee a year ago demanding a defunding of the NED and a thorough investigation to rip this network out by the roots from any role or influence in U.S. policy making or implementation. The NDPC warned that this secret government apparatus was implementing policies in alliance with forces such as the Socialist International, drug mafias, and gnostics, which are destroying U.S. allies and threatening our own Constitutional form of government.

Despite the Tower Commission and the special Congressional Committee investigations, Project Democracy is still running wild. Evidence is emerging in special prosecutor Lawrence Walsh's investigation, and in the Boston trial of United States vs. LaRouche, et al., which points to two key reasons for this. First, the highly probable role of Vice President George Bush as head of the Special Situation Group (SSG) in developing and implementing the Iran-Contra and other Project Democracy operations. Second, and interrelated, the role of this network within the Department of Justice for covering up and running protection for Project Democracy and the interagency task force overseen by Bush.

The NDPC therefore adds a call for an investigation into the corruption within the Dept. of Justice which protects the secret government.

The NDPC rejects the premise of the Senate Judiciary Committee hearings which has asked William Weld and Arnold Burns to testify, presumably about demoralization within the Department. Rather, the NDPC demands that the investigation for corruption focus on the DOJ network protecting the secret government. This must include a probe, for example, into William Weld's actions such as delaying the probe into Southern Air Transport; his protection of drug money laundering by major financial instutitions; his attempts to silence critics of the secret government such as his prosecution of LaRouche, et al. It must also probe a network of operatives placed into various local and county law enforcement agencies around the country which apparently take their commands from this DOJ apparatus. It must discover the reality behind Weld's recent remarks calling for greater DOJ authority over state and local prosecutors, and the connection of this with this broader network of operatives.

DEPARTMENT OF JUSTICE

When prosecutions are pursued on the basis of political targeting rather than criminal evidence, that is the makings of a police state.

This committee should be aware that the National Democratic Policy Committee itself is the target of a prosecutorial vendetta which we believe is a direct result of its attacks on the secret government. Federal prosecutors have been continually making up rules, seeking to circumvent the courts, in an attempt to collect a $5 million fine against the NDPC, a first amendment protected political action committee, at a time when this fine is on appeal.

A decision to target, followed by prosecutorial pursuit, has also been apparent in the politically motivated frameup of the Commander of Panama's Defense Forces, Gen. Manuel Noriega.

The unprecedented measures of economic warfare enacted against Panama since Feb. 26, demonstrates the extent to which that secret government seeks to extend its dictatorial power against nations around the globe. In this case, the nation of Panama is being held hostage, in violation of its national sovereignty, their food cut off and the economy shut down, until the man framed by this apparatus is handed over.

The indictment of Gen. Noriega on drug trafficking charges was a political hatet job. Former National Security Council official, Norman Bailey, by his own admission, put together the original list of allegations against the General in 1986 in collaboration with the NSC and Admiral Poindexter. Bailey's dossier, fed to Seymour Hersh, was published by the New York Times on June 12, 1986. Although no "source" was cited by name in that article, it became the basis for the U.S. media repeatings the allegations in virtually any article which mentioned Noriega subsequently.

In the summer of 1987, orders were given from Washington that Noriega be indicted. Associate Attorney General Stephen Trott took charge of the operation to indict Noriega at a July 16 special meeting at the Justice Department of representatives from the FBI and DEA, according to a Los Angeles Times story printed in the Baltimore Sun on August 4, 1987. There, he ordered both agencies "to pull together all we have on him to see if it was prosecutable."

With Trott as "referee," (his words), the DEA in Miami was ordered to collect "every snippet that we have on this guy," even as DEA officials continued their long standing collaboration with Gen. Noriega in anti-drug activities. The Los Angeles Times' sources warned the paper that despite the orders, investigators were having trouble corroborating the allegations against Gen. Noriega.

Two federal grand juries were convened into Noriega's alleged drug trafficking. In the end, the indictments handed down from both juries on Feb. 5, 1987, were based upon the evidence of several convicted drug runners, and one of the leading Communist agents in Panama, Jose I. Blandon.

The first convicted drug runner to testify against Noriega, Ramon Milian Rodriquez, admitted to the U.S. Senate during hearings in February, that he is now serving a 35 year sentence for cocaine trafficking and drug money laundering, because of Gen. Noriega!

The DEA and Interpol were initially alerted to Milian's drug activities by the anti-narcotics unit of Panama's Defense Forces in April 1983. On the basis of the evidence compiled by the PDF and passed onto Interpol, Rodriquez was arrested in Miami on May 5, 1983. At that time, U.S. anti-drug agencies had

no doubt as to the role of Noriega in the apprehension of this criminal. On July 15, 1983, James Bramble, the special agent in charge of the case at the U.S. Justice Department, sent a letter to then Col. Noriega, who had directed the PDF's anti-narcotics unit since its founding, expressing U.S. thanks for the cooperation of the PDF, "without which the investigation and arrest of Milian Rodriquez would have been impossible."

A second leading "witness" against Noriega, was given a reduced sentence, in exchange for his testimony. Stephen Kalish, the money launderer for a drug ring which brought more than 500,000 pounds of marijuana and 3,000 pounds of cocaine into the U.S. between 1982 and 1985, provided the first "evidence" which was prosecutable, according to Customs Commissioner Von Raab. On Feb. 26, 1987, Kalish was sentenced to only 14 years in prison--for crimes carrying a maximum life sentence--because, as prosecutors told the judge, "without his cooperation, the recent indictment against Gen. Noriega would not have been possible at this time."

The leading non-convict who provided evidence against Noriega for the indictments, was Jose Isabel Blandon, the leading Communist agent in Panama. Blandon's history as a Cuban-DGI agent, is not unknown to the members of the Justice and State Departments who promoted him as the star of the get-Noriega drive. U.S. intelligence, both military and civilian, have compiled extensive files on the activities of Jose Blandon. To our knowledge, they have yet to be shared with this committee and other members of Congress.

[Extra], a newspaper of the opposition in Panama, reported that U.S. Embassy sources in Panama consider Blandon a DGI-KGB plant, even as Blandon was being prepared by U.S. State Department officials for his testimony before the U.S. Senate. This man was a leading member of Panama's Moscow-allied Communist party, the People's Party, until the mid-1970s. While he was Assistant Secretary of Agriculture, Blandon used his position to pack the Ministry with members of the Peoples' Party, until he was fired for his abuse of his post.

Blandon's tauted "close association" with the PDF was not with Gen. Noriega, but with the former number two of the PDF, Col. Roberto Diaz Herrera, the man who proclaimed himself to be both "an extraordinary friend" of Fidel Castro's, and an active part of a network of people holding high office in the Caribbean region including Castro and several members of the Socialist International who are practicioners of the occult.

WHY IS THE WAR ON DRUGS IS BEING LOST?

First, in the area of economics, there is a rock hard ideological commitment on the part of President Ronald Reagan, Vice President George Bush, on down, to equate the black market economy, ie. the drug economy, with production of real wealth.

Second, according to credible sources, Bush is afraid that the banking collapse which would likely result from a tough crackdown on the major banks involved in laundering the $500 billion in narcotics money, would ruin his chances to become president. The departure in 1985 of Assistant Secretary of the Treasury for Enforcement and Operations John Walker, combined with the role of the now former Assistant Attorney General William Weld, ensured a halt in prosecution of banks for drug money laundering. The slap on the wrist fine given to Bank of Boston in 1985, in reality protection afforded to that bank by Weld, was the last major money laundering case brought by the Reagan administration.

These two problem areas have festered to gigantic

proportions because their enforcement arm, the National Endowment for Democracy and its behind the scenes counterpart, Project Democracy, have become a secret government unto themselves with incredible power. A prerequisite for a War on Drugs is eradication of this network.

THE DRUG ECONOMY

On September 27, 1987, President Reagan declared in a speech before the U.N., "Development is not itself a right." "We're all familiar with the phenomenon of the 'underground economy,'" Reagan said. "The scholar, Hernando de Soto, and his colleagues have examined the situation of one country, Peru, and described an economy of the poor that bypasses crushing taxation and stifling regulation. This 'informal economy,' as the researchers call it, is the principal supplier of many goods and services...The free market is the other path to development, and the one true path."

This statement is an explicit endorsement of the legalization of the black economy.

Assistant Secretary of State for Inter-American affairs Elliott Abrams and the Project Democracy group have declared the major enemy in the hemisphere to be the existence of strong nation states and the militaries that defend them. State Department Special Report No. 158, issued in March and entitled "Democracy in Latin America and the Caribbean: The Promise and the Challenge," calls for "new values (and) organizational diversity" to replace the institutions which have formed the backbone of the Ibero-American republics--the labor movement, the Catholic Church, and the military."

Narco-terrorism is not pinpointed as the major enemy, but "the pervasiveness of hierarchical structures with deep historic and cultural roots has created ingrained authoritarian habits" which threaten democracy. Key offenders are "religious and military institutions--the 'cross and the sword'--of the Spanish Conquest, key pillars of traditional order ever since."

A chief instrument of this policy has been the Center for International Private Enterprise (CIPE), and its star project, Hernando de Soto's Institute for Liberty and Democracy (ILD) in Lima, Peru.

In November 1986, the ILD published The Other Path, billed as a "manual" on how the "informal economy" can be tapped as a new source of wealth to pay the debt and return to growth. De Soto proposes the legalization of the black economy as the answer to the region's ills. The narcotics trade is by far the largest component of the black economy.

Advertisements hailed the book for devising "a Latin American strategy destined to limit the powers of our states." The Other Path argued that the existence of the nation state itself oppresses freedom, and that "we must imbibe the norms of extra-legality" to defeat it.

Peruvian novelist Mario Vargas Llosa wrote the introduction and provided the inspiration for the book, according to ILD members. Vargas Llosa capture the essence of the libertarian worldview of Project Democracy. A follower of fascist philosopher Nietzsche, Vargas Llosa wrote in his book, The Perpetual Orgy: "Our incurable materialism, our predilection for the pleasures of the body over those of the soul, our respect for the senses and instincts, our preference for the earthly life over anything else...are what religion and Western morals have barbarically combatted throughout history."

CIPE, an arm of the NED, and the Rockefeller family's Americas Society backed up de Soto's work, financing a huge

publicity campaign throughout the continent. By spring, The Other Path has become the America's best seller.

On May 1, 1987, in a speech before the Association of American Chambers of Commerce, Elliott Abrams declared The Other Path to be the official policy of the Reagan administration. Praising de Soto, Vargas Llosa, and the ILD, Abrams stated that the answer to the economic crisis is "legalizing the co-called parallel markets...Free markets may exist only in the informal economy, which does not enjoy the protection of the law."

Mr. Chairman, I would like to add as an addendum to my testimony, a brief excerpt from an Executive Intelligence Review special report entitled, "White Paper on the Panama crisis." This is a background discussion on how the NED and Project Democracy are committed, in their own words, to a policy of "fascism with a human face."

ADDENDUM

Meet the crusade's mother: Project Democracy

There is nothing "native" about the movement to overthrow the government and military command of Panama: the "opposition" was created, financed, and directed every step of the way from outside the country. The opposition movement, a sort of Panamanian Contras, is the child of Project Democracy, the secret, parallel government brought to public light when the Iran-Contra scandal exploded in November 1986.

The foreign plotters complain that the leadership of the opposition movement is incompetent, because they have been unable to rally the population to their side. Arguments are given as to why this or that faction must be given more support, because they will surely be more successful. Each faction, in turn, proves no better than the last.

What those foreign plotters fail to understand, is that it is the very nature of the operation which leads to failure. Teddy Roosevelt reincarnated as an "Oliver North Democrat," is, after all, still Teddy Roosevelt.

There is a name in Panama for men like the Eisenmanns, the Galindos, the Arias Calderons--men such as "Willie Coaches" who change their name to curry favor in Washington. They are called "Bunau-Varillas," followers of the hated Philipe Bunau-Varilla who, as Panama's agent, signed the 1903 treaty with the United States which asserted perpetual limited sovereignty for Panama.

General Noriega described these leaders succinctly this summer, as the men who "sell Panama."

But the so-called "opposition" movement in Panama is not only foreign controlled; it is the Panamanian wing of an international conspiracy whose aim is to impose a corporativist-fascist dictatorship upon the countries of the West, including within the United States itself. The only thing "democratic'' about this movement is its name. To understand better how this opposition beast works, it is necessary to understand something about its mother: Project Democracy.

Project Democracy was first known around the world as the so-called "Reagan doctrine," a policy which asserted a U.S. right to dictate domestic policies to its allies around the world, in the name of rolling back communism worldwide.

Investigators soon unraveled the deeper story, a story told in full in the Executive Intelligence Review's (EIR) Special Report, "Project Democracy: The 'Parallel Government' behind the Iran-Contra Affair." The roots of Project Democracy extend back twenty years, to Henry Kissinger's reorganization of the United States' National Security Council to be the

central command post of a virtual "government within the government," working on behalf of Western banking interests who seek to establish a new, supranational global order, run as a condominium between Western bankers and the Russians.

Hatchet-men for this bankers' dictatorship, were a network of right-wing social-democratic organizations led by former followers of Soviet "right oppositionist" N. Bukharin. Out to destroy the form of government established by the U.S. Constitution, this grouping created its own channels of power, running through both private and public institutions, which answered not to elected officials, but to these private interests, thus establishing, in effect, a parallel government.

In the wake of the oil crisis of 1973, these Western banking interests founded the Trilateral Commission, to assure the smooth transmission of policy orders to governments around the world, under conditions of economic crisis which they fully expected would dominate the coming decades. Thus, one of the first projects undertaken by the Trilaterals, was a study on the "ungovernability" of modern democracy in an era of economic crisis and social upheaval, a project directed by Zbigniew Brzezinski, then the director of the Trilateral Commission. From that study came the international apparatus today known as Project Democracy.

A cleaned-up version of the conclusions of the Trilaterals' discussions, was published in book form, under the title, "The Crisis of Democracy," written by Michael Crozier, Samuel Huntington, and Joji Watanuki. The starting point of "The Crisis of Democracy" is the decline of such economic progress as had characterized the 1960s, and the advent of the post-industrial society. In his introduction, Brzezinski compares the atmosphere of 1975 with the early 1920s, when Oswald Spengler published his mystical "The Decline of the West."

The book argues outright, that changes are needed in the political system of the United States itself. "Democracy is more of a threat to itself in the United States," the Trilaterals state. The reason they offer as to why reveals a sharp concern that under conditions of crisis, new political currents could overturn their grip on power. They warn, "The lesson of the 1960s was that American political parties were extraordinarily vulnerable organizations, in the sense that they could be easily penetrated, and even captured, by highly motivated and well-organized groups with a cause and a candidate."

In 1975, the program of the Trilaterals was given a formal name: "fascism with a democratic face." The phrase was first floated by the so-called Initiative Committee for National Economic Planning (ICNEP), a group founded by such liberal economists as Wassily Leontieff and J.K. Galbraith. It soon began to surface from different corners, as a rallying cry.

Certain prime financial supporters of the liberal wing of the Democratic Party have a "hidden agenda for American politics ...a planned economy...state capitalism...fascism without the lampshade factories," Nicholas von Hoffman revealed in a Washington Post column in early 1975. In March 1975, Challenge magazine carried an article entitled, "The Coming Corporatism."

That article explained:

"Corporatism is a distinct form of economic structure. It was recognized as such in the 1930s by people of diverse political backgrounds, before Hitler extinguished the enthusiasm which greeted Mussolini's variant.... This

'corporatism' is a comprehensive economic system under which the state intensively channels predominantly privately owned business towards four goals, which have become increasingly explicit during the current economic crisis: Order, Unity, Nationalism, and 'Success.'

"... Let us not mince words. Corporatism is fascism with a human face. What the parties are putting forward now is an acceptable face of fascism; indeed a masked version of it, because so far the more repugnant political and social aspects of the German and Italian regimes are absent or only present in diluted form."

Steadily over the past two years, the United States has come under the grip of this group. Under the Carter administration, it was no secret that the Trilateral Commission ran the show. Under the Reagan administration, Project Democracy consolidated its vise-grip on policy by the middle of 1983. When the quasi-public body, the National Endowment for Democracy (NED), was created in November 1983, the Trilaterals had secured a new base for international and domestic operations. While financed with government funds, the NED was established as a private entity, operating outside of government oversight restrictions, Freedom of Information Act requirements, and financial audits and accountability.

STATEMENT OF

JOHN QUADROS, PRESIDENT

NATIONAL WEATHER SERVICE EMPLOYEES ORGANIZATION

I. LACK OF INFORMATION

Like last year, our first criticism of the Administration's proposed budget concerns what it hides rather than what it presents. For example, while the proposed budget indicates that there will be a decrease of 128 permanent positions in FY 1989, the document issued to the Congress by NOAA, called Budget Estimates Fiscal Year 1989: Congressional Submission (NOAA's Budget Document), indicates on page NOAA-41 that far more positions will be lost. This page indicates that there will be a decrease of 429 positions due to contracting-out or as NOAA categorizes it, "privatization."

This year, there were no adjustments to base for NWS or NESDIS permanent positions -- in other words, there were no changes made between the NWS and NESDIS "1988 Currently Available" number of permanent positions, (3,555) and the "1989 Base" number of permanent positions (3,552) on pages NOAA 107.

One would assume that the lack of adjustments to base means there will be no "contracting-out" of NWS functions in FY 1989, and that the decrease of 429 positions do not apply to NWS or NESDIS. If this is true, then our organization is strongly in favor of this aspect of the proposed budget. However, we are skeptical that NWS and NESDIS will cease "contracting-out," and therefore conclude that the budget statistics are not being accurately presented.

Also, we understand that the NWS is on the verge of a major reorganization and modernization plan, and neither this

plan nor its impact on the FY 1989 NWS budget is presented in NOAA's Budget Document.

Last year we had the same problem trying to analyze the proposed budget, when we discovered discrepancies in the statistics being presented to the Congress, and the problem has not ceased. For our organization, the Congress or anyone else to make informed comments or judgments regarding the proposed budget, NOAA should give clear and accurate information. We request this Subcommittee to investigate the discrepancies we identified so that we may comment on them in a responsible way.

II. NWS CUTBACKS

In many respects the proposed budget is the same as last year's in that the same uneconomic and unsafe reductions are proposed. For example, the Administration proposed the elimination of maintenance funds for Hawaii data buoys, and test and engineering functions, despite the holding in one court, that the NWS was liable for the deaths of three fishermen in a fierce storm that forecasters failed to predict due to failure of a weather observation buoy. Fortunately for the government this decision was reversed on appeal.

Likewise, the Administration proposes to reduce fire weather services, a move which will produce a greater risk to human safety and potential for economic loss, especially in western states. The west has had its second consecutive dry winter. Increased occurence of forest fires is almost a certainly.

The funding for the Colorado River Basin flood warning system, the Susquehanna River Basin flood warning system, and the integrated flood observing and warning system would be reduced under the proposed budget. Funding for emergency power for NOAA Weather Radio would be reduced, and in times of severe weather,

when regular power systems might fail, is when NOAA Weather Radio is needed most.

Besides proposed reductions which jeopardize public safety, there are proposed reductions that will hurt certain segments of our economy and, in the long run, end up costing more than they save. A good example is the proposed elimination of the agricultural weather services program (including the closing of seven NWS offices) and eliminating the specialized agricultural fruit frost program.

As we said last year, there are significant public interest reasons to maintain the agricultural NWS programs. Private meteorological services may be good for growers who can afford them, but are of little help to many other growers who cannot afford the extra cost of private forecasts. What if private services are not available? How do we protect the other segments of the economy which are dependent upon growers who cannot afford to purchase private forecasts? Everyone, from the trucker down to the consumer, suffers if a crop fails due to lack of public forecast services, and they cannot force the grower to purchase private forecasts if the grower cannot afford to do so.

Finally, the Administration proposes the reduction of meterological technicans (met-techs), and the reduction of GS Grades 11-15 in NOAA. We are continually faced with cutbacks of the number of personnel at NWS offices, and now are faced with reductions of higher-paid but experienced personnel. Fewer and less-experienced NWS employees are what we will end up with, a situation which greatly increases the risk to public safety and which will increase the cost to the taxpayer in the long run.

We applaud the actions of this Subcommittee, last year, in restoring most, if not all of the proposed administrations cutbacks and we are hopeful that you will once again restore these

budget reductions in Fiscal Year 1989.

III. SYSTEMS ACQUISITION

We should enhance and upgrade the NWS, not only with modern equipment (which is included in the budget), but also in the number of experienced employees. In this regard, we note the proposed $14 million decrease for the Advanced Weather Interactive Processing System (AWIPS), in this year's budget presentation. This leaves approximately $5 million for lengthening the life of the current system. We are concerned that NOAA may contract-out AWIPS maintenance and should this be the case, we would oppose continued funding of this system. We understand that the maintenance of the Next Generation Weather Radar (NEXRAD) is under study for contracting-out. If our Electronic Technicans in the NWS are not needed by NOAA for either of these two systems, a large segment of the NWS workforce will be eliminated. This we strongly oppose.

We support the continued develop of NEXRAD. However, we urge this Subcommittee and the Congress to strongly oppose any effort by NOAA to dictate the size and staffing of 115 Weather Service Offices which would be co-located with NEXRAD sites. The size and staffing of these offices should be determined by differences in Forecast programs, meteorological and geographic variations and population. The NWS should not be permitted to make any changes in current staffing levels or organization until a national plan has been reviewed and approved by the Congress. Staffing in the NWS has steadily decreased over the years while the work load and dangers to public safety have not.

The proposed budget includes a reduction of $3.5 million for a "NOAA Port" which would have formatted and distributed data and data products, including conventional data sets, to users. We support this reduction. NOAA's intent was to operate NOAA Port through a private-sector contractor, which would provide the data

transmissions to users, sell users the receive-site equipment, and restrict access of the data to NOAA-approved users who comply with NOAA Port access policies and procedures.

IV. CONTRACTING-OUT NWS FUNCTIONS

We believe that contracting-out NWS functions is hazardous to the public safety, and therefore the practice should be stopped, and reversed in cases where key functions have already been contracted-out. One of the most recent examples of this administration's rush to contract-out NOAA activities was reported April 4, 1988 in the Washington Post on the contracting-out of NOAA's central library management to a Dutch-owned firm. The library is filled with technical collections on meteorology, hydrology, marine biology and oceanography. This contracting-out is undertaken at the same time that the FBI is warning technical libraries about the dangers of foreign intelligence agents using their facilities.

We believe that NOAA is still intent on contracting-out many of the NWS functions in the not too distant future. We request that Congress put a halt to this process.

In conclusion, NWSEO applauds the continued support provided by this Subcommittee to maintain adequate funding for the various services and positions needed to fulfill the NWS public safety role. Your courage and foresight, in this time of budget constraint, is appreciated by the federal employees of the NWS.

National Conference of State Legislatures

STATEMENT OF

STATE REPRESENTATIVE LOUIS JOHNSON OF KENTUCKY

ON BEHALF OF

THE NATIONAL CONFERENCE OF STATE LEGISLATURES

I am Representative Louis Johnson of Kentucky. I am chair of the Judiciary - Civil Committee in the Kentucky House of Representatives and have served as a Vice Chair of the Law and Justice Committee of the National Conference of State Legislatures ("NCSL"). I am making this statement to the Senate Appropriations Subcommittee on Commerce, Justice, and State, the Judiciary and Related Agencies on behalf of NCSL. We urge Congress to continue its commitment to the war on drugs by appropriating $225 million in assistance to state and local governments for drug enforcement, which was originally called for in the Anti-Drug Abuse Act of 1986.

Nearly two years ago the nation was shocked by the death of Len Bias, the talented basketball star of the University of Maryland. His death as a result of drug abuse brought much-needed attention to the fact that drug abuse pervaded society. When Congress and the Administration responded with the Anti-Drug Abuse Act of 1986, we in the states became hopeful that significant national resources would join with our state and local resources to meet this crisis.

Today, the story of drugs is not the headline death of a national celebrity, but the intrigues of international cartels. And attention is easily diverted from the persistent corrosive and subversive influence of illicit drugs in our terrorized inner cities as well as in our quiet rural communities.

When the President and Mrs. Reagan announced the crusade against drug abuse in 1986 much of the emphasis was on reducing demand. Some statistics suggest that the campaign of educating our young to "just say, no" is having a positive effect upon reducing demand. However, such a simple admonition is powerless to defeat the dealers who know that just taking their chances with law enforcement can mean that they may be rewarded with thousands of dollars in a single day.

The war on drugs will take more than education, treatment, and rehabilitation. It continues to require the utmost vigilance by law enforcement at the state, federal, and local levels of government.

Let me explain how the funds provided to the states under the 1986 Act are making important contributions to the war on drugs. In Kentucky, we have had a continual problem with marijuana eradication. Because Kentucky is one of the major producers of marijuana, our efforts at eradication have national consequences. Therefore, it is appropriate that the federal government allocate resources to this effort. Even though we have increased surveillance from the air, we have not always been able to follow through when marijuana is located. With funds from the State and Local Assistance program, we are putting additional manpower in place for state-local cooperation in bringing growers to justice. We cannot show you results today for this project, because the funds were just approved in August, and marijuana plants would not be detectable yet this year.

Kentucky and other states are using the new federal funds to upgrade their forensic laboratories. Nearly 70 percent of all evidence examined in the state laboratory in Kentucky is from local agencies. Without adequate facilities, the turnaround time is not as quick as prosecutors desire. Not only does the improved facility improve state-local cooperation, but with better equipment, more precise information can be discovered about the illicit drugs. Being able to analyze the source of the substance, for instance, can assist state and federal officials in understanding more clearly the major patterns of trafficking.

One of the most common applications of the federal funds is the creation

of multi-jurisdictional task forces to improve law enforcement cooperation. As of November 1987, Michigan, for instance, had created 17 task forces to improve cooperation among select counties and state and federal law enforcement agencies. New Jersey, likewise, has emphasized the need for greater cooperation among local jurisdictions. Such cooperation is essential in addressing the acute problem of gangs involved in the interstate transportation of drugs. The proliferation of these gangs in communities unprepared to confront them exemplifies the reasons that states and localities warrant increased federal assistance.

In Ohio, as in Kentucky, some of the funding is going to treatment for drug-dependent offenders. These new or expanded programs show real hope for reducing rates of recidivism.

By making a substantial allocation of resources to the states for drug abuse law enforcement, the Congress heightened the sense of urgency at the state and local level. But federal promises of assistance have also heightened the expectation of a sustained and successful effort. Congress would send the wrong message to drug dealers and users by abandoning this important cooperative effort.

It is legitimate for this committee to question whether the appropriation requested for state and local assistance in the war on drugs is effective. It is not wise, however, for the committee or the Justice Department to question the efficacy of these programs prematurely. The Administration has argued that since "there is no guarantee that this program will yield permanent benefits," additional funds should not be authorized until positive results are ascertained.

Unfortunately, asking for quick results in what is a long-term assault on a major menace to public safety may cause funds to be misdirected. We know that we are in this for the long haul, and Congress rightly structured the grants to insure that adequate deliberation would accompany plans to spend in a comprehensive and coordinated manner. States took their responsibilities seriously. Under the guidelines drawn up by the Bureau of Justice Assistance, states were to evaluate their needs carefully before submitting requests for

funding. The plans submitted by the states were to include new efforts that would not otherwise have been funded by states or localities. Perhaps with the eventual success of certain programs, increased funding for the programs may be allocated by state and local governments, but without at least a three-year federal commitment, state and local agencies will be frustrated in planning their drug enforcement programs.

Even though the Department of Justice has argued against funding additional grants to state and local governments, it nevertheless has prepared the groundwork for evaluations. The Bureau of Justice Assistance has asked the Criminal Justice Statistics Association to prepare methods to evaluate the success of the state and local assistance grants. The Bureau of Justice Assistance is to present the CJSA evaluations to Congress in October of this year.

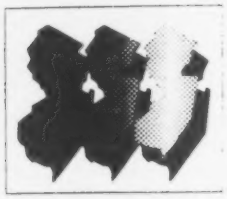
In spite its expressed desire for immediate results, the Justice Department knows that "results" cannot be guaranteed within a limited time frame in law enforcement. Even in its celebrated drug bust two weeks ago, the FBI spent two years to produce "results", and according to press accounts, the result would not have been easily predicted in the fall of 1985. This case also illustrates the importance of intergovernmental cooperation in law enforcement. And further, it shows that law enforcement continues to be a critical part of the comprehensive attack on drug abuse.

The recent passage of comprehensive anti-drug bills in states from Arizona to New Jersey highlights the fact that we are taking the problem seriously. We ask only that you join us in this costly fight. If money is going to be the federal government's currency of commitment, then retracting federal money inevitably indicates a diminished federal commitment. By promising three years of funding at the height of public interest in 1986, Congress created a mandate for action. My constituents and yours still want to see us attack this problem seriously. If Congress is going to make this a priority, then it should not shrink from funding it.

Although we are all legislators and must make priorities in order to keep our budgets workable, I also speak as a fellow taxpayer on this issue.

Protecting our law-abiding citizens from the dangers of crime is one of the most important functions of government. I would hope that my taxes would be directed to this critical effort.

Attorney General's Statewide ACTION PLAN for Narcotics Enforcement



Attorney General
W. Cary Edwards

A Letter from the Attorney General

Dear Member of New Jersey's Law Enforcement Community:

This plan is intended to guide state, county and local law enforcement agencies in conducting increasingly aggressive and coordinated enforcement operations against drug offenders at all levels. The careful planning of strategies and tactics remains a critical and ongoing task. But we must now proceed beyond the planning stage — it is time for concerted action.

Without question the problem of drug abuse poses the greatest danger to the health and safety of New Jersey's citizens, and especially our young people. According to a recent federal study, 56 percent of all crimes are drug related. This means that in 1986 approximately 224,000 of the more than 400,000 criminal offenses committed in New Jersey involved illicit drugs. For this reason, this Action Plan directs that the enforcement of our criminal drug laws shall be the highest priority law enforcement activity.

...56 percent of all crimes are drug related...

In October 1986, Governor Kean announced a major, long-range program to attack simultaneously the supply and demand sides of this deadly problem. The Governor's *Blueprint For A Drug-Free New Jersey,* which was prepared in conjunction with the Attorney General's Statewide Narcotics Task Force, has earned national recognition for its innovative, sophisticated approach. The *Blueprint* embraces a statewide perspective — one which is truly comprehensive.

...Blueprint For a Drug-Free New Jersey has earned national recognition...

In direct response to the Governor's urgent call for action, the New Jersey Legislature introduced and unanimously adopted the "Comprehensive Drug Reform Act of 1987." This landmark legislation represents a sweeping revision of New Jersey's drug laws, so that today, New Jersey has one of the toughest, most modern drug statutes in the entire nation. This law will ensure the imposition of stern, consistent punishment for *all* drug offenders, ranging from street level users and dealers to the highest ranking kingpins. Together, the Governor's *Blueprint* and the Comprehensive Drug Reform Act of 1987 establish a clear policy of this State with respect to drug offenders: the era of leniency is over.

...Together, the Governor's Blueprint and the Comprehensive Drug Reform Act of 1987 establish a clear policy: the era of leniency is over...

By adopting tough new drug laws, the Legislature and the Governor have entrusted to the law enforcement community an enormous responsibility. The effectiveness of a penal law depends almost entirely on the dedication of those who must enforce it. Thus, it is incumbent upon the entire New Jersey law enforcement community, working as a tightly knit network, to augment and redirect existing resources, to make better use of well-established operational tactics and to devise new techniques and technologies to take full advantage of the new law. Only in this way can we ultimately ensure the most aggressive, cost-effective and uniform enforcement of all the new law's provisions.

In developing and implementing these enforcement strategies and tactics law enforcement must keep in mind that the war against substance abuse cannot be limited to choking off the supply of illicit drugs. So long as the demand remains great, and so long as enormous profits thus remain to be reaped, some traffickers will always be able to find a way to reach and exploit substance abusers. For this reason, the law enforcement community has an undeniable responsibility to adopt and implement tactics designed to reduce the demand for illicit drugs, especially by young people.

New Jersey is well-equipped to undertake the massive enforcement initiatives contemplated in this Action Plan. Our unified system of law

...New Jersey is well-equipped to undertake the massive enforcement initiatives contemplated in this Action Plan...

enforcement, unique in the nation, allows the Attorney General as chief law enforcement officer to work in close operation with the 21 county prosecutors and all other law enforcement departments and agencies throughout the State. This integrated structure will facilitate the degree of coordination and interagency cooperation needed to address the drug problem from a truly statewide perspective.

The new penal law provides law enforcement the essential tools needed to develop important new sources of confidential information with

...The new penal law provides law enforcement the essential tools needed to develop important new sources of confidential information...

which to identify and ferret out the most culpable profiteers — those who are well-insulated within complex drug trafficking networks. New Jersey's electronic surveillance laws provide law enforcement with additional tools to support major, sophisticated investigations and our forfeiture laws provide a means by which we can effectively strip illegal profits away from drug predators. That law, as recently amended, provides that the proceeds of forfeiture actions must be distributed to all participating law enforcement agencies, and must be dedicated exclusively for law enforcement purposes. In this way, aside from helping to take the profit out of drug crime, the law forces criminals, rather than taxpayers, to bear at least some of the financial burdens associated with enhanced narcotics enforcement operations.

Most important of all, the New Jersey law enforcement officer is already among the best trained and most skilled in the nation. In short,

...The New Jersey law enforcement officer is already among the best trained and most skilled in the nation...

New Jersey already has in place all of the legal, organizational and human resource tools necessary to make this enhanced enforcement program an unqualified success.

Yet, despite impressive efforts by a number of individual departments and agencies, we as a law enforcement community have not taken full advantage of all of the tools and resources at our disposal, especially the opportunities afforded by our unique organizational structure to orchestrate a comprehensive, multijurisdictional narcotics enforcement program. With the exception of the establishment in July 1986 of the Statewide Narcotics Task Force and, before that, a number of operations and programs undertaken by the Division of State Police, to date, there has been no consistent, ongoing effort to institutionalize cooperative inter-agency efforts across the State. Nor has there been a widespread and concerted effort to embrace a truly statewide perspective on narcotics enforcement.

The Action Plan, as summarized here, establishes a number of strategic and tactical objectives, guidelines and *minimum* standards for narcotics enforcement operations throughout

...The Action Plan, as summarized here, establishes tactical objectives, guidelines and minimum standards for narcotics enforcement operations...

the State. A number of departments and agencies, of course, are already working towards many of the tactical objectives set forth in the Action Plan, and, in fact, some agencies have already gone well beyond the prescribed minimum standards established in the plan. Furthermore, although the plan adopts a statewide perspective which will be needed to respond to the proliferation of major drug trafficking enterprises, it nonetheless remains flexible. It

...Although the plan adopts a statewide perspective it remains flexible...

permits, indeed strongly encourages, local law enforcement agencies to tailor specific enforcement operations so as to respond to local needs and regional drug abuse problems.

Unless we take steps to make certain that every region, county and municipality across the State is safe from drug distribution activities the broad goals announced in the Governor's *Blueprint* and the Comprehensive Drug Reform Act cannot be achieved. No task of this magnitude can be realized without substantial sacrifice of time and effort on the part of every state, county and local law enforcement

...No task of this magnitude can be realized without substantial sacrifice on the part of every state, county and local law enforcement agency...

agency, and indeed every individual member of the law enforcement community. This plan recognizes that enhanced enforcement efforts and the call for an expansion of available narcotics enforcement resources is likely to impose additional fiscal burdens on a number of

counties and municipalities across the State. While these expenditures in public safety are without question a sound investment in New Jersey's future, and while narcotics enforcement operations must be deemed the highest priority among all law enforcement activities, we must recognize that many if not most police departments and communities are already overburdened.

For this reason, this Action Plan provides a means for pooling our resources and talent, for streamlining enforcement operations so as to avoid costly and potentially counterproductive duplication, and for making certain that all available sources of funding have been fully explored. In this way, the plan recognizes that we in law enforcement must act in some sense as each other's keeper if we are to afford adequate protection to every community and to every citizen.

...The plan recognizes that we in law enforcement must act in some sense as each other's keeper...

To accomplish this, the Action Plan embraces the concept of the interagency "task force", and calls for the creation of an interdepartmental narcotics task force within every county. This network of countywide narcotics task forces, working in conjunction with the State-wide

...The Action Plan calls for the creation of an interdepartmental narcotics task force within every county...

Narcotics Task Force will allow us to take full advantage of all available resources, talent and expertise across the State. This integrated system will also provide each participating law enforcement agency a link to NOMAD — a state-of-the-art computer system which will give New Jersey an information gathering, sharing and analytical capability second to none in the nation.

In sum, the rules of the game have substantially changed. The Governor's *Blueprint* and the Comprehensive Drug Reform Act place a new, increased burden of success or failure squarely on our shoulders. We must seize this opportunity, and prove once again that our professional community is characterized by a dedication and a commitment to the principals of cooperation, communication and mutual assistance.

For our families, friends and communities let's work together.

Sincerely,

W. Cary Edwards

W. CARY EDWARDS
Attorney General of New Jersey

Executive Summary

Statewide Action Plan for Narcotics Enforcement

The Action Plan establishes the official policies of the State with respect to the enforcement of New Jersey's controlled dangerous substance laws. Within this plan there are 13 chapters, each devoted to a different concept of narcotics enforcement (description follows).

The plan defines a number of "Strategic Objectives" which serve as benchmarks against which all narcotics enforcement policies, programs and operations must be measured. Also included in the plan are "Tactical Objectives" which are narrower, more immediate goals.

The Action Plan establishes a number of "Directives" and "Guidelines" which represent specific programs, activities or policy statements designed to promote or achieve a strategic or tactical objective. A "Directive" establishes the basic, minimum standard for narcotics enforcement agencies to comply with. The term "Guideline" refers to a program, activity or operation which is strongly recommended but which may not be appropriate or cost-effective to implement.

Finally, this Action Plan recognizes that each region, county and locality within the State has its own identifiable drug problem, and that specialized enforcement tactics that are needed in one place may be inappropriate or ineffective in another.

The Need for a Comprehensive and Coordinated Law Enforcement Strategy to Attack New Jersey's Substance Abuse Problem

This chapter discusses the nature and scope of the substance abuse problem and outlines the need for a coordinated plan of action. This preliminary chapter identifies those law enforcement agencies/groups which will serve as *principal participants* in implementing this Action Plan. These include: municipal and county police, the Statewide Narcotics Task Force, the New Jersey State Police, the Division of Criminal Justice, the county prosecutors, the county sheriffs, the New Jersey Narcotic Enforcement Officers Association and the Statewide Drug Policy Advisory Board. This Action Plan nonetheless expressly recognizes that *all* law enforcement agencies, not only those designated as principal participants, must play an active role in New Jersey's enhanced war

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This executive summary has been prepared for the reader's convenience. It briefly highlights some, but not all, of the provisions of the Action Plan. For a copy of the complete Action Plan write:

Attorney General's Statewide Narcotics Task Force • 6th Floor • Hughes Justice Complex • Trenton, NJ 08625 • Attn: ACTION PLAN

on drugs. Chapter 1 further recognizes that in addition to traditional "supply side" activities, the New Jersey law enforcement community must cooperate with public and private organizations in developing education, prevention and public awareness programs to reduce the demand for illicit drugs. *[Directive 1.1]*.

Strategic Objectives for Enhanced Narcotics Enforcement

This chapter traces the history and intent of the Comprehensive Drug Reform Act of 1987, identifies the basic policies of this State with respect to narcotics enforcement and establishes a number of long-range strategic objectives. In addition, this section provides that:

- Enforcement of New Jersey's Controlled Dangerous Substance laws must be considered to be the highest priority law enforcement activity, and that additional personnel and equipment resources must therefore be devoted or redirected to enhance narcotics enforcement programs *[Directives 2.1, 2.2 and 2.4, and Guideline 2.1]*.

- All law enforcement agencies must conduct a census of all personnel and equipment resources which are dedicated to or are available to be dedicated to enhanced narcotics enforcement programs *[Directive 2.3]*.

The Statewide Narcotics Task Force: A Model for Interagency Cooperation

This chapter discusses the functions and organizational structure of the Statewide Narcotics Task Force, which can serve as a model for the countywide narcotics task forces which will be required to be established in each county. Chapter 3 also briefly describes the soon-to-be operational NOMAD computer system.

Coordination, Integration and Enhancement of Law Enforcement Resources

This chapter discusses the need to coordinate, integrate and enhance narcotics enforcement activities in response to the proliferation of highly sophisticated and organized drug trafficking networks across the State. This chapter provides that:

- Each county prosecutor must establish a countywide narcotics task force comprised of representatives from the county prosecutors office, municipal police departments and other law enforcement agencies selected by the county prosecutor *[Directive 4.1]*. The functions and responsibilities of these countywide narcotics task forces, and their relationship to the Statewide Narcotics Task Force are detailed in *[Directives 4.2, 4.3, 4.4, 4.5, 4.6 and Guidelines 4.1, 4.2 and 4.3]*.

- The Statewide Narcotics Task Force shall analyze data transmitted by the countywide narcotics task forces and return information and strategic advice to contributing law enforcement agencies so as to support and enhance county and local enforcement operations *[Directive 4.7]*.

- It shall be the policy of this State for all law enforcement agencies to fully cooperate with federal narcotics enforcement agencies as well as the law enforcement agencies of sister states *[Directive 4.8]*.

- Law enforcement officers should be encouraged to actively participate in organizations and associations designed to promote professionalism and enhance intrastate and interstate communication *[Guideline 4.4]*.

Programs to Protect Youth and Enforce School "Safety Zones"

This chapter discusses narcotics enforcement programs and initiatives designed to protect youth and to aggressively enforce the innovative provisions of the Comprehensive Drug Reform Act concerning distribution to juveniles and distribution on or near school property or buses. This chapter provides that:

- All local law enforcement departments must identify all elementary and secondary schools within their jurisdictions; ascertain and familiarize all officers as to the outer perimeters of the 1,000 foot radius school "safety zones" established by law; develop reliable means for proving the location of these safety zones in court; erect warning signs and publish maps to advise citizens of the location and boundaries of these drug-free zones, and require police reports to indicate whenever a drug offense occurs within a zone so as to identify those areas where drug trafficking is most prevalent. *[Directives 5.1, 5.2, 5.3, 5.4, 5.5 and 5.6, and Guidelines 5.1 and 5.2]*.

- It is the policy of this State to take into custody any juvenile who violates the Controlled Dangerous Substance laws in an officer's presence, even as to disorderly persons offenses *[Directives 5.7 and 5.8]*.

- It is the overriding policy of this State that no law enforcement activity or operation be permitted to interfere with school substance abuse counselling and education initiatives *[Directive 5.10]*.

- Law enforcement agencies must maintain at appropriate times a visible police presence within school safety zones and at major school sporting events *[Directive 5.9 and Guideline 5.3]*.

- Law enforcement agencies should, under the direct supervision of the county prosecutors, conduct undercover and surveillance operations within school safety zones and periodically conduct "clean sweep" operations to keep these zones drug free *[Directive 5.10 and Guidelines 5.4, 5.5]*.

- The State Police shall provide undercover teams, subject to the availability of resources, to support school safety zone enforcement programs *[Directive 5.11]*.

- The county prosecutors should regularly meet with school officials to develop procedures for reporting suspected drug offenses occurring on or near school property; to encourge students to report drug activities by establishing student drug tip lines; to familiarize students and teachers with those circumstances which indicate illicit drug activities, and explain to school officials their authority to conduct lawful searches in accordance with State and federal constitutional law *[Directives 5.12 and 5.13, and Guidelines 5.6, 5.7 and 5.8]*.

- Properly trained and coordinated law enforcement personnel should arrange lectures, seminars and workshops to discuss with students the substance abuse problem from a law enforcement perspective *[Guidelines 5.9 and 5.10]*.

- A School Zone Narcotics Enforcement Working Group be established to develop model programs concerning drug offense reporting procedures by education professionals, and to recommend directives and/or guidelines concerning law enforcement activities occurring on or near school property *[Directive 5.14]*.

Basic Patrol and Investigative Activities

This chapter details programs and initiatives to enhance basic police patrol functions as well as targeted narcotics investigations. This chapter provides that:

- Every law enforcement agency must maintain a precise record of the time and location of every drug offense, and this information must be transmitted to and analyzed by the appropriate countywide narcotics task force; each law enforcement agency must also designate locations where drug distribution is most prevalent as "high drug crime areas," which must be routinely and aggressively patrolled *[Directives 6.1, 6.2 and 6.3]*.

- The Statewide Narcotics Task Force shall provide local law enforcement agencies with up-to-date information on drug smuggling techniques and profiles, and develop training programs to help local police identify and interdict drugs in transport *[Directives 6.4 and 6.5]*.

- Each countywide narcotics task force should establish a patrol drug response unit and procedures patterned after those used by the Statewide Narcotics Task Force, and should also establish canine units to facilitate the search of automobiles and premises for concealed drugs *[Guidelines 6.2 and 6.3]*.

- Each countywide narcotics task force should establish and publicize the existence of 24-hour confidential tip lines and post office boxes to encourage private citizens to report suspected drug activities to law enforcement authorities *[Directive 6.6 and Guideline 6.4]*.

- Law enforcement agencies should target for surveillance and undercover activities high drug crime areas where open and notorious drug transactions occur, and should, under the supervision of the county prosecutors, conduct "buy bust" and periodic "clean sweep" operations in these targeted areas *[Directive 6.7, and Guidelines 6.5, 6.6 and 6.7]*.

- The county prosecutors and the Statewide Narcotics Task Force must develop uniform guidelines governing the use of the "aggregation" principle established at *N.J.S.A.* 2C:35-5c., which permits law enforcement officials to make multiple controlled purchases so as to effectively raise the degree of the distribution offense charged *[Directive 6.9 and Guidelines 6.9 and 6.10]*.

- It is the policy of this State to arrest any person who violates New Jersey's Controlled Dangerous Substance laws in an officer's presence, even as to disorderly persons offenses *[Directives 6.10 and 6.11]*.

- Local law enforcement agencies should, under the direct supervision of the county prosecutors, consider the feasibility of "sell bust" operations so as to make user/purchasers wary of open and so-called "stranger-to-stranger" transactions *[Directive 6.12 and Guidelines 6.10 and 6.11]*.

- All investigations into drug-induced deaths and accident fatalities where drugs may have been involved must be coordinated by the appropriate countywide narcotics task force so as to take full advantage of the provisions of *N.J.S.A.* 2C:35-9 (Strict Liability For Drug-Induced Deaths) *[Directive 6.13]*.

- The county prosecutors and the Statewide Narcotics Task Force must develop programs to ensure that all searches and seizures are conducted in accordance with State and federal constitutional law so as to make certain that all evidence seized will be admissible in criminal prosecutions *[Directives 6.14, 6.15 and 6.16 and Guidelines 6.12, 6.13, 6.14 and 6.15]*.

Enhanced Air and Sea Interdiction Initiatives

This chapter details programs and initiatives to enhance New Jersey's air and sea interdiction and anti-smuggling efforts. This chapter provides that:

- It is the policy of this State that all New Jersey law enforcement agencies fully cooperate with federal law enforcement agencies and military organizations, as well as the law enforcement agencies of the sister states, and that the Statewide Narcotics Task Force,

in conjunction with the State Marine Police, will bear primary responsibility for coordinating all air and sea interdiction efforts and establishing appropriate liaisons with federal authorities *[Directives 7.1 and 7.2]*.

- All countywide narcotics task forces must identify all airports, air strips, marinas and public storage facilities located within their jurisdictions and develop drug smuggling awareness campaigns and reporting procedures with respect to professional and recreational boaters, harbor masters, airport managers and employees and public storage facility operators and employees *[Directives 7.3, 7.4 and 7.5]*.

Eradication of Controlled Dangerous Substance Production Facilities

This chapter details programs and initiatives to identify and eradicate clandestine controlled dangerous substance production facilities. This chapter provides that:

- All countywide narcotics task forces must systematically identify and work with all legitimate wholesale and resale manufacturers and distributors of precursors, laboratory glassware and equipment typically used in the illicit drug manufacturing process, and must report all information concerning the sale or lease of such materials and equipment to the Statewide Narcotics Task Force for entry into the NOMAD computer system *[Directives 8.1, 8.2, 8.3 and 8.4]*.

- All countywide narcotics task forces must develop public awareness campaigns and establish reporting procedures to familiarize citizens with those circumstances which indicate the operation of illicit drug production facilities *[Directive 8.5]*.

- The New Jersey State Police should, wherever possible, make available resources to support investigations and raids of controlled dangerous substance production facilities *[Directive 8.6]*.

- No search of a suspected controlled dangerous substance production facility can be conducted except under the direct supervision of a county prosecutor or the Statewide Narcotics Task Force and unless precautions are taken to protect law enforcement officers, innocent bystanders and neighboring communities against the risk of explosions, fires or the release of hazardous chemicals. The Statewide Narcotics Task Force must also develop procedures in conjunction with the Department of Environmental Protection to ensure the safe disposal of any toxic, hazardous or combustible substances which may be seized from a controlled dangerous substance production facility *[Directives 8.7 and 8.8]*.

Enhanced and Expedited Prosecution Function

This chapter details programs and initiatives to enhance, coordinate and expedite the prosecution of drug offenses and offenders, to streamline the trial process and to ensure the uniform implementation and judicial interpretation of the Comprehensive Drug Reform Act. This chapter provides that:

- The county prosecutors and the Statewide Narcotics Task Force must develop uniform statewide guidelines governing prosecutorial charging discretion and the conduct of all plea negotiations in drug cases *[Directive 9.1]*.

- The Statewide Narcotics Task Force and the county prosecutors must develop procedures to review all litigation involving the construction or constitutionality of the Comprehensive Drug Reform Act, and must maintain a statewide brief bank to facilitate the handling of all drug-related litigation *[Directives 9.2 and 9.3]*.

- The county prosecutors should be encouraged to use the investigative powers of the county grand juries to compel certain offenders to divulge information needed to identify and prosecute upper echelon drug traffickers *[Guideline 9.1]*.

- The Statewide Narcotics Task Force and the county prosecutors must work with the appropriate speedy trial planning committees to ensure that drug cases are accorded high priority and move swiftly through the criminal justice process *[Directives 9.4 and 9.5]*.

- The county prosecutors and the Statewide Narcotics Task Force must develop programs to coordinate the activities and improve the efficiency of all forensic laboratory facilities. The program must include the development of a referral system to evenly distribute the forensic analysis workload throughout the State *[Directives 9.6, 9.7, 9.8, 9.9, 9.10, 9.11 and 9.12 and Guideline 9.2]*.

- The county prosecutors and the Statewide Narcotics Task Force must develop a targeted narcotics offender prosecution program to identify and swiftly prosecute the most dangerous and culpable drug offenders *[Directive 9.13]*.

- County prosecutors and the Statewide Narcotics Task Force must develop reliable means to establish at sentencing proceedings the "street value" of drugs involved in illicit transactions so as to ensure that the courts can impose the maximum cash fine allowable as law *[Directives 8.9 and 9.14]*.

- The county prosecutors must take steps to ensure that the interests of the State are adequately represented in all municipal court trials where the defendants are represented by attorneys *[Directive 9.15]*.

Enhanced Asset Forfeiture Initiatives

This chapter details programs and initiatives to ensure the most aggressive use of New

Jersey's forfeiture laws. This chapter provides that:

- It is the policy of this State to seize (subject to Guidelines to be established by the county prosecutors and the Statewide Narcotics Task Force) and forfeit *all* assets, including realty, stocks and ongoing businesses, as well as vehicles, which are the fruits of or which were in any way used in furtherance of illicit drug activities *[Directive 10.1 and Guideline 10.1]*.

- Each county prosecutor must designate an assistant prosecutor to review and handle all forfeiture matters within the jurisdiction, and the Statewide Narcotics Task Force must train these designated assistant county prosecutors in the logistics of forfeiture actions. In addition, the Statewide Narcotics Task Force and the county prosecutors must develop a forfeiture manual to ensure the uniform implementation of New Jersey's forfeiture laws *[Directives 10.2, 10.3 and 10.6]*.

- Every police arrest or incident report must indicate whenever a drug offense took place in or involved a vehicle or premises, and the county prosecutor or Statewide Narcotics Task Force must in each case conduct a follow-up investigation leading, where appropriate, to the filing of a civil forfeiture action *[Directives 10.4 and 10.5]*.

- The Statewide Narcotics Task Force and the Division of Criminal Justice will be responsible for assisting county prosecutors in tracing assets through the use of the NOMAD computer system and in conducting forfeiture litigation so as to ensure the uniform enforcement and judicial construction of New Jersey's forfeiture laws *[Directives 10.7 and 10.8]*.

Basic and In-Service Training Function

This chapter details programs and initiatives to update the required basic training courses and to enhance and coordinate all specialized, in-service training programs available to New Jersey's law enforcement officers. This chapter provides that:

- A Training Working Group be established to review, coordinate and publicize the availability of all narcotics training programs, and to develop a statewide delivery system so as to reach the greatest possible number of law enforcement officers *[Directives 11.1, 11.3 and 11.4]*.

- It is the policy of this State to encourage all law enforcement officers to participate in continuing education programs and advanced training courses, seminars and workshops *[Directive 11.2]*.

- The Statewide Narcotics Task Force and the county prosecutors should develop drug investigator internship programs to provide experience and expertise to local and county narcotics enforcement investigators and detectives *[Directive 11.5 and Guideline 11.1]*.

- Every law enforcement officer in this State, regardless of his duty assignment, must undergo in-service training concerning the Comprehensive Drug Reform Act of 1987 *[Directives 11.6 and 11.7]*.

- All POST curricula and other training courses must be amended to reflect the recent enactment of the Comprehensive Drug Reform Act *[Directive 11.8]*.

- The Training Working Group should develop and otherwise make available a variety of specialized courses focusing on the more sophisticated aspects of modern narcotics enforcement tactics and strategies *[Directives 11.9 and 11.10 and Guideline 11.1]*.

Statewide Coordination of Grant Applications

This chapter details programs and initiatives to take full advantage of federal grants and alternative funding sources offered by federal agencies and private foundations. This chapter provides that:

- A Grants Administration Unit be established within the Department of Law and Public Safety to identify, publicize, coordinate and facilitate the application and administration of all grant monies which are available to all State, county and local law enforcement agencies *[Directives 12.1, 12.2 and 12.3]*.

Evaluation, Implementation and Periodic Revision of this Action Plan

This chapter details procedures for implementing, critically evaluating and periodically revising the provisions of this Action Plan. This chapter provides that:

- Every county prosecutor shall be responsible for ensuring the implementation of this Action Plan within his jurisdiction, and should issue standard operating procedures, guidelines and/or directives as may be necessary *[Directive 13.1]*.

- Each law enforcement agency should review and amend its standard operating procedures, rules and regulations as may be necessary to implement the provisions of this Action Plan *[Directive 13.2]*.

- All county prosecutors must issue confidential implementation reports to the Statewide Narcotics Task Force, which in turn must compile these county reports and prepare a statewide implementation report for the Attorney General *[Directives 13.3, 13.4 and 13.5]*.

- All county prosecutors must issue periodic progress reports identifying problem areas

and the need to revise the statutory law as well as the provisions of this Action Plan *[Directives 13.6 and 13.7]*.

- The Division of Criminal Justice and the Statewide Narcotics Task Force shall conduct an ongoing study of the implementation and effect of the Comprehensive Drug Reform Act, and shall conduct scientific surveys to measure citizens' response to the new law and the enforcement programs contemplated by this Action Plan. In addition, the Statewide Narcotics Task Force, working with the county prosecutors, must issue a report to the Attorney General detailing the need for any specific amendments to the Comprehensive Drug Reform Act or to this Action Plan *[Directives 13.8, 13.9 and 13.10]*.

Attorney General's Statewide Narcotics Task Force

Address:

Attorney General's
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Assistant Attorney General Richard T. Carley
Statewide Narcotics Task Force

Lt. Col. Louis H. Taranto
Statewide Narcotics Task Force

LPS NJ Department of Law & Public Safety

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AAES AMERICAN ASSOCIATION OF ENGINEERING SOCIETIES

Statement

of the

American Association of Engineering Societies

on the

National Bureau of Standards

Mr. Chairman and Members of the Subcommittee:

The American Association of Engineering Societies (AAES) is a multidisciplinary organization of engineering societies dedicated to advancing the knowledge, understanding, and practice of engineering in the public interest. The member societies of AAES, which represent over a half million engineers in industry, government, and education, include:

- American Society of Civil Engineers
- American Institute of Mining, Metallurgical and Petroleum Engineers
- American Society of Mechanical Engineers
- Institute of Electrical and Electronics Engineers
- American Society for Engineering Education
- American Institute of Chemical Engineers
- National Institute of Ceramic Engineers
- Institute of Industrial Engineers
- Society of Women Engineers
- Society of Fire Protection Engineers
- American Institute of Plant Engineers
- American Nuclear Society
- American Indian Science and Engineering Society

AAES is pleased to present its views on the fiscal year 1989 budget of the National Bureau of Standards.

Introduction

We believe that the funding level of the National Bureau of Standards (NBS) should exceed $200 million a year and we are pleased to see a step toward this

goal in the $158 million budget that the Administration has proposed for fiscal year 1989.

The National Bureau of Standards has a legitimate role as the government agency that supports the nation's science and technological efforts. We have noted with interest the number of bills introduced as Congress has grappled with the need to increase the industrial competitiveness of the United States, and we are pleased that this distinguished body is considering measures that would raise the level of attention and resources devoted to technology in the Bureau's work.

Despite the critical and elemental role of NBS, its basic programs have been historically under funded. As the national interest required, NBS has been assigned additional programs, which have also been under funded. Although NBS has carried out its responsibilities with a high level of scientific competence, shortages of resources for both primary and secondary activities have often sapped its financial and technical vitality.

We would like to begin our testimony by highlighting several of the proposed programmatic increases in the NBS budget, followed by more detailed discussion of the Bureau's Measurement Science and Precision Measurement Standards activities, the Centers for Building Technology and Fire Research, and the Institute for Computer Science and Technology.

- AAES is excited about the proposed $6.5 million increase for the High Temperature Superconducters program. The U.S. is at a crucial juncture with regard to superconductivity, and progress made over the next few years, or even months, could determine our nation's future in this area of intense international competition.

- AAES supports the proposed $2.5 million increase for the Process and Control Quality Assurance program, whose goal is to assist U.S. industry in matching or exceeding the quality of foreign goods in the world marketplace.

- AAES backs the $1 million increase in funding for research on High Performance Composites, which play an important role in the aerospace industry.

- AAES is pleased about the proposed increase of $2.25 million for Bioprocess Engineering, which will help NBS develop measurement standards to speed commercialization of biotechnology products.

- AAES applauds the request of $3 million to carry out the provisions of the

Computer Security Act of 1987. This new program provides for vitally needed R&D in computer security standards.

Measurement Science and Precision Measurement Standards

Among other distinctions, NBS is the unbiased arbiter of numerous issues relating to metrology, the science of measurements. As such, it provides a sound national system upon which the measurements of physical quantities are based. This service is vital to new product research, increased productivity, the assurance of quality, maintenance of equity in trade, and in a multitude of space and defense applications.

There has been a steady decline in the capability of the federal government to assure the veracity and authenticity of precision measurements used in the marketplace and in defense programs. U.S. industry needs precise state-of-the-art measurements and measuring systems to provide advances in technology, to perform research, and to design better, more competitive equipment. Precisely controlled measurements are at the heart of technological advances and product competitiveness. The ability to perform these measurements gives a nation the edge in the global trade in technology. AAES is gravely concerned that work on more precise and accurate measurements in the U.S. is lagging, jeopardizing our position in international markets.

While the National Bureau of Standards has spearheaded the development of a national measurement system, its leadership has been undercut by inadequate funding and the addition of secondary functions. This has led to the delay of new products and the development of independent measurement systems which needlessly duplicate each other.

The lack of adequate resources to meet the needs of a national measurement system is particularly critical in electronics. This technology forms the largest manufacturing group in the U.S. with 2.3 million employees. The $215 billion electronics market represents about 5.5 percent of the gross national product and is growing. Export of electronics equipment is now about $40 billion. However, while exports exceeded imports by $5 billion five years ago, imports surpassed exports by an estimated $12 billion in 1986. One reason for this reversal is the failure of the NBS to develop measurement standards. In some frequency bands such as those needed for new satellite communication systems, no adequate NBS measurement standards exist. Similar deficiencies exist in fiber optics, in millimeter wave and microwave technology, and in alternating current measurement. AAES estimates that an additional $25 million a year for the next 5 to 7 years is needed to restore our national measurement standards.

The Center for Building Technology and the Center for Fire Research

The Administration's fiscal year 1989 budget proposal calls for merging the Center for Building Technology (CBT) and the Center for Fire Research (CFR) and drastically cutting available funds for these unique and important programs. The Administration proposes to reduce NBS building research and fire research to $5 million base funding in fiscal 1989, down 45 percent from $9 million in fiscal 1987.

Last year, Congress rejected the administration's proposal, in the FY 88 budget request, to merge CBT and CFR at the reduced level of funding of $5 million.

As in previous years when the Administration proposed outright termination of CBT and CFR, the rationale for merging and cutting these research programs is that their activities are more properly the responsibility of the private sector and state and local governments. This position, which Congress has rejected repeatedly, belies the numerous testimonials filed by a variety of organizations that stressed the unique services performed by the Centers for Building Technology and Fire Research. Furthermore, given the Administration's expressed commitment to improving U.S. economic competitiveness and technological development, the continued budget assault on CBT and CFR is perplexing and misdirected. Foreign competitors continue to strengthen their position in construction through increased research and development. NBS building and fire research improves the usefulness, safety and economy of buildings and enhances the international competitiveness of U.S. construction services and products.

We support, without equivocation, full funding for the Center for Building Technology and the Center for Fire Research. Their specialized laboratory facilities and expert professional staffs are essential public resources that should be preserved--not destroyed. It is important to note that maintaining current year funding for CBT and CFR in fiscal year 1989 will not restore the significant program erosion that has occurred since 1980. Resource reductions have cut in half CBT's abilities to improve construction practices, while CFR is currently funded at one-third the level called for by the Presidential Commission on Fire Prevention and Control in 1974.

The Center for Building Technology

The building industry plays an extraordinarily important role in the economic life of the nation. About 10% of the GNP is produced by the building industry annually and almost two-thirds of the nation's wealth is invested in constructed facilities. The Center for Building Technology -- the national building research laboratory -- is essential to maintaining the continued competitiveness of this sector. CBT performs field, laboratory, and analytical

research to develop measurement techniques and to evaluate the performance of construction materials, components, and systems. The Center has conducted significant programs in advanced computation and automation, structural engineering, earthquake hazard reduction, and on building physics, materials, and equipment.

CBT is also important because it is the only research program capable of studying in an integrated way the complex technical issues that the building industry as a whole must confront. Because of the industry's size and diversity, it is difficult to imagine any institution in the private sector or at the state or local level capable of assuming CBT programs or distributing the findings adequately on its own. This interdisciplinary laboratory integrates complex issues in a way that more narrowly focused, proprietary research and development cannot.

The Center for Fire Research

The Center for Fire Research also contributes to public safety in a way that no privately funded research effort could. CFR explores the processes that initiate, propagate, and suppress real fires. These investigations lead to the development of realistic material test methods to control and extinguish fires. Like CBT, CFR does not promulgate and enforce standards and regulations.

Instead, it provides technical support to groups devising voluntary standards and model codes, as well as the building industry, engineers, and fire organizations.

CFR is the world leader in the development of mathematical fire models and computer simulation. Given the disturbingly high fire death rate in the U.S., the importance of CFR programs cannot be overemphasized. Despite an improved U.S. fire loss record over the last decade, each year U.S. fires result in over 6,000 deaths, 200,000 injuries, and $7.5 billion in property losses.

A drastic reduction in CFR funding would seriously hamper the development of fire control technology in the United States. If the specter of eliminating lifesaving opportunities does not deter efforts to curtail CFR programs, the cost-saving implications should persuade a budget-conscious government to reconsider the proposal. Fire-safe building design can save money for all sectors of our society. Through its ongoing research efforts, CFR hopes to reduce fire deaths by 3,500 a year and fire protection costs $15 billion a year by the end of the century. The budget request for CFR is, at best, harmful to the economic and social interests of the American people, and is, at worst, life threatening and irresponsible.

The Institute for Computer Science and Technology

Another critical operating unit of NBS is the Institute for Computer Science and Technology (ICST). ICST plays a major role in establishing computer standards and specifications and, as such, serves the Department of Commerce goals of promoting the development and application of science and technology in U.S. industries and increasing the competitiveness of U.S. telecommunications, Department's goal of increasing the worldwide acceptance of U.S. technical standards and of improving the Federal government's cost-effective use of computer and telecommunications technology.

ICST staff serves a key role in over sixty voluntary industry standards committees, providing critical information in the development of technical specifications and in measurement and testing of draft standards. The ICST presence ensures continuity in the drafting process. For example, it is clear that the many suppliers of computer networking services and products need the unifying force of an unbiased, internationally recognized and respected third party if we are to avoid an uncontrolled, disruptive, and wasteful proliferation of incompatible computer products. This situation would be chaotic for both vendors and users, especially users like the Federal government. By developing and facilitating the adoption of key standards, ICST provides a fundamental underpinning for the computer industry that greatly stimulates innovation and enhances productivity.

The level of support for the ICST should correspond with the importance of its technical areas. These areas include software engineering, information systems engineering, data base management, computer graphics, computer security, office systems engineering, computer networking, computer architecture, and computer storage media and techniques. AAES seriously objects to ICST funding levels contemplated for FY 1989. Failure to fund ICST at adequate levels will lead to a major loss to U.S. industry and seriously handicap its competitive posture in domestic and international markets. We strongly support a funding level equivalent to the 1985 level of $10 million, adjusted upward for inflation. This should be followed by real increases to bring the ICST budget to at least $15 million.

Other Programs

Although it is not slated for an increase, AAES is pleased to see that the construction of the Cold Neutron Research Facility is proceeding and that adequate funding has been included in the budget. We are also pleased to note the continuation of the postdoctoral Research Associate Program, which helps the NBS attract top-quality young engineers and scientists.

the NBS attract top-quality young engineers and scientists.

Finally, we see the Bureau's new alternative personnel system as a bright spot in an otherwise gloomy personnel picture at the federal laboratories, and we are concerned about the policy that restricts the Bureau to zero average real growth in salaries under the system. There is a real opportunity for the NBS system ~~to lead the way~~ to a time when the federal government can once again attract sufficient numbers of high-quality scientists and engineers to staff its facilities. Yet the Bureau is being restrained from exercising much of the flexibility allowed under the law establishing the new system.

Summary

AAES believes that the engineering programs at the National Bureau of Standards provide essential tools that enable engineers to transform scientific knowledge into technological breakthroughs and commercial applications. These tools include new engineering data, new measurement concepts and techniques, reference materials, and the engineering practices necessary to initiate and improve standards and codes.

For many years, NBS has made major contributions to technological innovation, productivity, and enhanced public safety. However, the budget of NBS is not growing sufficiently to support many essential programs. In 1975, the appropriation for the Bureau was $60.3 million. The 1989 budget request of $158 million, when adjusted for inflation, represents only a slight increase in funding despite the expansion of the Bureau's measurement tasks and the imposition of additional responsibilities. While the present budget deficit precludes the possibility that the NBS budget be raised to $200 million this year, we would recommend that the NBS budget be built up to this level over the course of the next three to five years.

We appreciate the opportunity to present the views of the American Association of Engineering Societies on the FY 1989 budget request for the National Bureau of Standards.

TESTIMONY OF

KATHRYN R. TOLLERTON

WASHINGTON REPRESENTATIVE FOR MARINE SANCTUARIES
DEFENDERS OF WILDLIFE

Mr. Chairman and Members of the Subcommittee:

Thank you very much for the opportunity to testify on the Fiscal Year 1989 (FY89) budget requests for the National Estuarine Reserve Research System, the National Marine Sanctuary Program, the Protected and Endangered Species activities, and the Gear and Debris Entanglement Program of the National Oceanic and Atmospheric Administration (NOAA). I am testifying on behalf of Defenders of Wildlife, Greenpeace U.S.A., the Humane Society of the United States, and the Whale Center. Our members and supporters have a strong interest in our coastal and marine resource programs, in the protection of endangered and threatened species, and in achieving a major reduction in the gear and debris entanglement of marine mammals, birds, and fish.

At the outset, we want to express our appreciation to all the Members of this Committee for their decisions to provide funds for NOAA programs in the FY88 Commerce Appropriations Law which the Administration had proposed to eliminate or drastically reduce. We believe it is in the national interest to improve and strengthen these and other NOAA programs.

Under the provisions of the 1987 Budget Summit Agreement, NOAA took an across-the-board cut of 5.85% in all programs, projects and activities. Now we understand that the Administration is considering asking the Congress to reprogram an additional 7.99%, or approximately $16 million, from all the FY88 Congressional restorations and add-ons in the agency's budget as part of a $33 million reprogramming request. This added 7.99% cut would make it difficult to manage many of the small dollar activities which we are supporting in this testimony. We urge Congress not to put a further burden on these activities by agreeing to the reprogramming request.

Coastal Zone Management

National Estuarine Reserve Research System

Mr. Chairman, we are requesting $3,191,000 for the National Estuarine Reserve Research System in FY89. This is $2,006,000 more than the FY89 Administration request of $1,185,000, and a $500,000 increase above the FY88 appropriation of $2,691,000.

We are requesting an increase of $500,000 for the research budget to bring it up to $1 million. The 1986 amendments to the National Estuarine Research Reserve Program emphasize the research and educational use of the estuarine reserves and require NOAA to give priority to supporting or conducting estuarine research that uses the estuarine reserves. Currently the agency receives about $2 million annually in estuarine research proposals for this program. A budget of $1 million would provide approximately $60,000 per research reserve for research on water and sediment management, the behavior of nutrients and other chemicals inputs in the reserves, primary and secondary estuarine productivity and estuarine fishery habitat requirements. The estuarine research reserves operate as natural laboratories to provide information to assist coastal management decision-makers in solving coastal management problems. This research would be greatly assisted by the increased funding we request.

If the $1,506,000 reduction from the FY88 appropriation were made, acquisition of new estuarine reserve sites would be slowed down and would increase in cost. Acquisition and operations would be cut at some sites, and opportunities to use proposed sites for estuarine research would be lost. The costs of water-front property go up continually. Stretching site acquisition costs over several years increases the risk that willing sellers would turn to other purchasers, and the opportunity to preserve valuable estuarine areas for education, recreation, research, and critical shellfish and fish breeding areas would be lost.

This program, which is Section 315 of the Coastal Zone Management Act, is a federal-state partnership. The federal government bears only half the cost of acquiring the state-managed sites. Seventeen estuarine reserves have been designated in 15 states.

National Marine Sanctuary Program

Turning to the Marine Sanctuary Program, for Fiscal Year 1989 we request $3,420,000 for the program. This is $1,298,000 more than the Administration request of $2,122,000 and an increase of $800,000 above the FY88 appropriation of $2,620,000. To date seven ocean and coastal water areas have been designated National Marine Sanctuaries (NMS). The eighth sanctuary at Cordell Bank, an approximately 20-square-mile area off the northern California coast, is likely to be approved during the current fiscal year. During FY89 two more sanctuaries may be designated: Flower Garden Banks, located in the Gulf of Mexico, approximately 110 nautical miles southeast of Galveston, TX, which contains a terrace formation and the northern most living coral reefs on the continental shelf; and Norfolk Canyon, a submarine canyon located 60 nautical miles off the coast of Virginia, which contains huge tree corals and canyon walls in which large invertebrates and some finfish dig caves and burrows. The $2,620,000 appropriated last year is needed to continue the existing management, education, research, and enforcement activities at six of the seven designated sanctuaries.

However, an increase of $800,000 is needed in FY89 to provide for management, research, and enforcement activities at certain sites. $200,000 is needed for management and research at each of the following sites: Fagatele Bay National Marine Sanctuary, American Samoa; Cordell Bank; and Flower Garden Banks. An additional $200,000 is needed for enforcement and resource protection at the heavily visited Key Largo and Looe Key Sanctuaries in Florida and at the very popular Channel Islands and Gulf of Farallones Sanctuaries in California.

A strong interpretation program -- educating visitors about a sanctuary's natural features and marine inhabitants -- is essential to the protection of the sanctuary and to better public appreciation of man's impact upon the marine environment. A solid research program that charts the movement of whales or sharks within the sanctuary, for example, is essential to the development of good management practices, to the interpretation program and to the scientific understanding of the sanctuary's marine resources. Through the interpretation and research programs, visitors learn the reasons for banning such activities as spearfishing, bottom dragging, using wire fishtraps, and bilge pumping in the sanctuary.

The estuarine and marine sanctuary programs are unique, the first of their kind in the world. We believe that the value of these programs far exceeds their small cost.

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National Marine Fisheries Service

The President proposes substantial cuts in resource information and management, including work on protected species and ecosystems of particular concern, such as the Chesapeake Bay, and the protection of marine species from the devastating impact of plastic debris. Such cuts will result in a failure to carry out the policies enunciated by Congress in the Marine Mammal Protection Act (MMPA), the Endangered Species Act (ESA), the recently enacted Marine Plastic Pollution Research and Control Act (Title II, PL 100-220), and the Driftnet Impact Monitoring Assessment and Control Act (Title IV, PL 100-220), and other statutes. This proposal will undercut the cooperative efforts of state and local governments and private organizations to protect species and special ecosystems, and it will make future recovery much more expensive. We ask the Committee to note the December 28, 1987, letter from the General Counsel of the Department of Commerce to the Director of the Office of Management and Budget supporting the enactment of marine plastic pollution and driftnet legislation (now P.L. 100-220). The General Council stated that, **"additional appropriations would be required for the Department in order to fulfill its responsibilities under the bill."**

Marine Fishery Resource Programs

Information Collection and Analysis

Resource Information

The $1.2 million for protected species research should be restored. This money funds turtle population assessment, efforts to reduce the incidental take of sea turtles, and research on bowhead whales and Hawaiian monk seals.

Out of these protected species research monies, NMFS should be provided an enhancement of $50,000 to continue the development and implementation of the recovery plan for the Gulf of California harbor porpoise. This plan is being initiated at

Congress's direction for the world's smallest and rarest cetacean. Recovery actions that are essential before full implementation of a recovery plan can be undertaken include: completing population and mortality surveys, addressing such issues as population recruitment and trends that threaten the porpoise; assessing and introducing alternatives to gillnet fishing methods such as purse seine nets, excluder devices, depth and location regulation; and education and enforcement of U.S. and Mexican laws against taking and trade in totoaba, a prime prey species of the porpoise. It is very important that NMFS develop a research and action timetable, assign responsibilities for recovery work and report to Congress on its progress.

We recommend that at least $50,000 be appropriated for NMFS protected species research to implement recovery actions for the North Atlantic and North Pacific populations of humpback whales.

The humpback whale is one of the rarest great whales and resides within U.S. waters the greatest amount of time. The United States has the opportunity to act constructively to recover the humpback population and to set a positive example for world-wide whale conservation. The draft recovery plan for the humpback is nearing completion. The funding we recommend will initiate work on the management and research recommendations of the recovery plan. To ensure that this work proceeds smoothly, we recommend that NMFS develop a research and action timetable and assign responsibilities for recovery work.

We recommend providing $350,000 for research on the right whale, perhaps the most endangered great whale. Key portions of inshore habitat are being considered for waste dumping and hydrocarbon extraction. Continued research will help avoid jeopardizing the whales and enhance their recovery. In FY89 this money is needed to study the habitat, including the area off the Georgia and Florida coasts to determine the causes of calf mortality, population numbers, migration movements and to assess causes of human disturbance.

The Office of Protected Species is and has been severely underfunded. $250,000 of the restored funds and a $100,000 enhancement should be allocated to a NMFS program to fulfill the mandate of the Endangered Species Act (ESA) that the Secretary of Commerce assess and list, as needed, marine species that are endangered. This staff should include an invertebrate zoologist below the level of office director. The staff should also develop a process for identifying such candidates on a more regular basis. NMFS has never generated internally a proposal for listing an endangered species though a number of such listings have been warranted.

The Service should be directed to revise and promulgate immediately stronger regulations concerning the importation of tuna taken by foreign fleets not meeting U.S. standards for the protection of dolphins. The entire tuna/dolphin program deserves an additional $500,000 for much needed improvements in design and enforcement.

An additional $250,000 should be provided for the development and implementation of techniques for marking (by numbers that are catalogued or inventoried in port data bases) gear and packaging that may be lost or discarded and entangle protected species; and for identifying, by inventory number or other means, the responsible or negligent party for enforcement and research purposes.

TURTLE EXCLUDER DEVICES (TEDs)

NMFS's enforcement of its regulations dealing with protected species such as sea turtles is underfunded. We recommend an enhancement of $900,000 to enforce the regulations requiring shrimp trawlers to use Turtle Excluder Devices (TEDs). There are only 5 NMFS agents enforcing these regulations in the entire Gulf of Mexico where more than 15,000 shrimp trawlers are operating. The enhancement we recommend would allow at least one agent to be assigned to each of the 8 affected states and would provide other much needed funding for travel and related expenses. The House of Representatives specifically supported these regulations by refusing to delay their implementation during the floor debate on H.R. 1467, which amends and extends the Endangered Species Act.

An increase would provide for testing and development of additional varieties of such devices as are contemplated by NOAA's proposed regulations and for teaching shrimp fishermen how to use them. Furthermore, the sponsors of this testimony are opposed to the inclusion in this or any other appropriation bill of language which would limit the applicability of regulations requiring the use of Turtle Excluder Devices (TEDs).

In regard to the installation of TEDs on shrimp trawlers to prevent their catching and retaining endangered sea turtles in their nets, we applaud the use of Kennedy-Saltonstall (SK) Act funds during the current fiscal year to continue research on TEDs. Now six types of TEDs have been certified for use -- two more than we had a year ago.

Further restorations should include:

The $1.6 million in Chesapeake Bay Studies. This funds habitat research in the Bay and an assessment of the impact of habitat quality on striped bass, oysters, and other species.

The $1.5 million for marine mammal research. This represents an unjustified cut in the Marine Mammal Laboratory budget in Seattle, the cutting of dolphin research in the Gulf of Mexico and the waters off the southern states, as well as cuts in research on species in the Northeast. Restored funds can be redirected toward the development of recovery or conservation plans. An earmark of $250,000 is recommended to ascertain/research the status of many stocks of marine mammals that are presumed to be depleted or declining. The extent and causes of these situation are often unknown, and the Service is unable to fulfill its responsibility under the Marine Mammal Protection Act (MMPA) unless it increases its knowledge of these phenomena.

We recommend a restoration of the $706,000 and an enhancement of $1,200,000 ($1.9 million total) to build upon much needed work done in FY85, 86, 87, and 88 on gear entanglement and plastic pollution problems.

The entanglement, injury and death of protected marine wildlife species continues practically unabated. Research must be continued to develop solutions to the problem of continuing seabird, fur seal, sea lion, porpoise, whale, turtle, and other mortality caused by driftnets, nearshore set gillnets, net fragments abandoned packaging, and other plastic debris. Techniques for marking gear and packaging that is likely to be lost, discarded, or abandoned must be further assessed, developed and implemented, where appropriate.

The Service should also continue to pursue research on and development of the legal basis for and practical techniques for reducing take on the high seas and addressing abandonment of nets, gear, and plastic waste by foreign nations. One means of accomplishing this is through international conventions (at least one relevant convention appendix is Annex V of the International Convention for the Prevention of Pollution by Garbage from Ships [MARPOL] which will be implemented next December. Congress recently provided for its implementation in the Marine Plastic Pollution Research and Control Act of 1987 [Title II of PL 100-220]).

For FY89 we recommend an increase of $150,000 to deal with such problems as: (1) assessment of the ability of ports to manage offshore disposal of plastic ship wastes, (2) work related to controlling the lifetime of plastics, and (3) development of techniques to reduce the loss of fishing nets and to develop techniques to protect marine life.

In regard to management of the onshore disposal of plastic wastes from ships in port, Annex V of MARPOL and other recently enacted provisions of PL 100-220 require onshore disposal of these wastes in the near future. Little review has been made of the knowledge or technologies available for the safe disposal of these wastes through compactors, recycling, or safe landfills (i.e., those which do not attract hungry eagles, other birds, bears, or additional wildlife to eat and/or become entangled in plastic debris). Onshore port disposal methods vary greatly and will have to be examined on a case-by-case basis. The problems are different, for example, between New York City and the very small but heavily used port at Dutch Harbor, Alaska. Appropriate waste disposal technologies will have to be examined, recommended and installed at these and other U.S. ports.

Moreover, additional data is needed on the technologies for controlling the lifetime of plastics. Although work is progressing on photodegradability (particularly on those plastics which sink) and biodegradability, research on chemodegradability is still in the infancy stage.

We recommend an increase of $750,000 to implement four new programs required under or closely related to the provisions of the recently enacted Marine Plastic Pollution Research and Control Act of 1987 (Title II of PL 100-220).

(1) $75,000 should be provided to initiate the national education program which P.L. 100-220 requires NOAA to undertake.

(2) $75,000 should be provided to pay for a substantial part of the Second International Conference on Marine Debris which NMFS will hold in April 1989. The scientific and educational conference will update and review the existing knowledge of the sources, impacts and solutions for the marine debris problem worldwide. The conference will identify priorities for further research and education, technological development, and legislation or regulations and will foster an understanding of and appreciation for those needs and priorities.

(3) $100,000 should be provided to establish the physical monitoring of beaches with the cooperation of the National Park Service and certain international organizations. Regular monitoring sites would be established in certain shoreline areas frequented by coastal bird and marine mammal populations. Debris samples would be collected as they washed ashore.

(4) $500,000 should be provided to establish a program to identify and quantify through biological monitoring the impacts of debris on seabirds and marine mammal populations.

An additional $300,000 is needed to implement the Driftnet Impact Monitoring, Assessment, and Control Act of 1987 (Title IV of PL 100-220). These funds should remain available until expended and would fund the "cooperative monitoring and assessment of the numbers of marine resources of the United States killed and retrieved, discarded, or lost by the foreign government's driftnet fishing vessels," as provided in Section 4004, Title IV of PL 100-220.

In regard to the loss and retrieval of fishing gear, recent research has shown the destructive impacts of nets on northern fur seals, seabirds, and other animals. In particular, NMFS has conducted onshore research on the impact of fishing gear on the northern fur seal. Now research must be conducted on the causes of mortality on fur seals at sea. And finally, time and money must also be spent to increase public and waste management industry awareness that ship-generated waste disposal is an enormous global problem and is closely related to finding solutions for the disposal of land based waste.

Protected Species Management

An enhancement of $500,000 for the Office of Protected Species is needed to begin a general recovery program for endangered and depleted species as required by the ESA and never fully implemented. This program will implement recovery plans and other actions to aid depleted or endangered species with the object of restoring their viability.

Entanglement

$500 000 and 5 FTEs should be provided to improve anti-

entanglement management and enforcement. This appropriation could provide additional staff for each coast, Hawaii, and Alaska.

Under the authority of the Endangered Species Act (ESA), the Marine Mammal Protection Act (MMPA), and recently approved Marine Plastic Pollution Research and Control Act and the Driftnet Impact Monitoring Assessment and Control Act, the Service should promulgate and enforce regulations requiring the marking and registration of plastic prone to entangle marine life and provide fines to be assessed to those who return to port without it or otherwise fail to report to dispose of it properly. This will make it possible to fine persons whose discarded debris kills protected species. An enhancement of $500,000 should be provided for this entanglement prevention program.

Habitat Conservation

The proposed reduction of $1,883,000 should be restored so that the environmental impact analysis, mitigation, and conservation work can continue.

This concludes our testimony. Thank you again for your strong and continuing support for these programs and for your attention and consideration today. I will be glad to try to answer any questions you may have.

AIRPORT OPERATORS COUNCIL INTERNATIONAL

Testimony of the

Airport Operators Council International

on

Fiscal 1989 Appropriations
for the U.S. Immigration and Naturalization Service

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* AOCI represents the governmental bodies that own and operate the principal airports served by scheduled airlines in the United States and around the world.

* AOCI member airports enplane more than 90 percent of total domestic and virtually all international scheduled airline passenger and cargo traffic of the United States.

* AOCI's international member airports enplane two-thirds of all airline passengers and cargo on six continents.

Mr. Chairman and Members of the Subcommittee:

The Airport Operators Council International appreciates this opportunity to present its views on the Fiscal 1989 Commerce/Justice/ State Appropriations Bill. Our testimony will focus on the funding and management of the U.S. Immigration and Naturalization Service with respect to inspections of airline passengers arriving at U.S. international gateway airports.

We seek the Committee's understanding and support regarding two issues:

1. The Immigration and Naturalization Service's staffing needs to be sufficient and its procedures streamlined to reduce delays in processing passengers arriving at international airports; and
2. Immigration user fees from airline passengers need to be applied directly to INS passenger processing at airports, and for the facilities used by INS inspections for inspecting those passengers.

The Airport Operators Council International (AOCI) represents the state, regional or local government bodies that own and operate all of the U.S. airports serving international scheduled airline service. AOCI is vitally concerned with the unhindered and efficient movement of international airline passengers, as a service to the passengers themselves and for the benefits that tourism and business travel bring to our communities and our nation. Our member airports work with and provide facilities for the INS and other federal inspection services to operate. Our ability to successfully serve our communities is inextricably linked to the smooth, rapid operation of the federal inspection services.

We need to foster business travel to boost the export of products and services of U.S. business, and we need to facilitate travel to the U.S. by foreign tourists. The importance of these measures to the health and growth of the U.S. economy cannot be emphasized too heavily. Our border formalities must not discourage the export of U.S. goods and services. The present and forecast increased value of foreign currencies, the so-called "decline of the dollar," represents an important opportunity for our country to begin to reverse the trade and payments deficits that threaten our fellow citizens' welfare. American goods and services are now the most financially attractive to foreigners that they have been for over 10 years because of the exchange rate trend. As AOCI has testified in past years before this Subcommittee, INS has an important role to play in this regard.

INS PRIORITIES

Last month, Mr. Chairman, the Commissioner of the INS came before this Subcommittee to support the Administration's budget request, which includes $2.2 billion for border enforcement activities. The budget includes $80 million from the Immigration User Fee, for inspection and preinspection, overtime inspection, information systems and detention and deportation services.

The current funding level is more or less adequate for the present level of international traffic. The increase in INS inspection staffs at airports over the last year is an encouraging trend. Commissioner Nelson testified that INS had increased the number of staff at airports from 557 in 1986 to 857 at present, reducing delays at most airports. Nevertheless, immigration inspection delays persist at many airports, and Commissioner Nelson needs to be held to his statement that where the delays persist, INS will be adding staff.

The standard of performance for U.S. inspection services must be to process all passengers arriving on international flights within forty-five minutes. This is consistent with the International Civil Aviation Organization's standards, to which the U.S. government is committed, and would allow passengers to make connections an hour- and-a-half after arrival, which is the airline industry standard.

The international standard calls for processing with a minimum of delay to preserve the advantages of air travel, and not less-efficiently than inspections for other modes of transport. The INS should recognize that delays that are customary in processing surface travelers are unacceptable in processing travelers whose journeys are measured in hours instead of days.

The airline passenger arrival figures are not static, however, and INS should be planning for increased staffing to process growth at existing airports of entry and to staff new international gateway airports. International passenger traffic to and from the U.S. in 1987 grew 13 percent over 1986, and is expected to increase in 1988 for all regions of the world. Passenger enplanements increased nearly 20 percent on Atlantic routes, over 11 percent on Latin American routes and over 12 percent on Pacific routes in 1987, according to the Department of Transportation. We believe the totals will increase in 1988 and 1989 as the dollar exchange rate makes foreign tourism in the U.S. more attractive. The FAA projects 1989 enplanements of U.S. passengers alone, about 58 percent of all arriving passengers now, to increase by 3.4 percent from 1988 to 1989, despite the less-favorable exchange rates. The percentage of U.S. citizens on international flights arriving in the U.S. is decreasing, and will continue to do so. It is obvious that a shift to more foreign passengers in the mix of arriving passengers will add to the INS

inspection workload. The Subcommittee may wish to ask INS to demonstrate their projections for staff increases to handle the expected passenger load increase.

Two other INS actions will combine to add significantly to the INS inspections workload. INS' discontinuation of citizen bypass for U.S. citizens and implementation of the visa waiver program may have the effects of increasing processing time and causing airport congestion. The continued decline in the dollar exchange rate forecast for this year and next, and the possibility of a U.S. stopover enroute to the Summer olympic games this year, will make the U.S. a very attractive place for European tourists in addition to the normal tourist traffic. The combination of factors promises to make U.S. airports congested and unpleasant this Summer.

CITIZEN BYPASS

The practice of separating U.S. citizens from the mass of arriving international passengers and moving them past the INS inspection has been an effective means of reducing delays for that class of arriving passengers and allowing the application of INS staff resources where they are most needed. AOCI supports expanded use of this desirable tool.

However, INS has steadily reduced the number of airports where it uses the citizen bypass, on the theory that installation of automated systems can allow inspection of all passengers. No automated inspection process can be faster in moving American citizens through the arrival process than bypassing the citizen passenger on to the customs inspection. INS has no mandate to control the return of American citizens to the United States, and as long as a sister agency can catch and refer any problem cases back to INS, citizen bypass should not be phased out. AOCI urges rather that more use be made of this successful concept. We should all focus on the basic purpose of airports and immigration inspection: movement of people from one place to another.

VISA WAIVERS

We also are concerned that INS implementation of the visa waiver program this summer, as mandated by Congress, could lead to massive processing delays and attendant congestion in airport terminals. Inspection and processing of passengers who arrive in the U.S. under the visa waiver program could take twice as long as for a passenger entering the U.S. with a visa, according to INS officials. This must not be allowed to happen, Mr. Chairman. The favorable effect of the visa waiver program will be lost if a foreign visitor must endure long lines both in the foreign airport terminal, as the airline checks his visa waiver documents, and as he is inspected at the U.S. port of entry. U.S. tourism and business will be hurt if the foreign traveler, pleased not to have to endure long visa lines at a U.S. consulate, only has to face an equivalent delay at the airport of departure and an increase in the customary delay at the U.S. airport of arrival. We hope that the Subcommittee, as it oversees INS implementation of this useful program, will help INS improve its efficiency and put on adequate staff to avoid any increased delays.

USER FEES

Mr. Chairman, we have been opposed to the proliferation of user fees that have been heaped on the backs of the airline passenger, because additional costs and a multiplicity of fees bring passengers closer to the economic behavior threshold where they will decline to travel. We have no problem with the concept that the beneficiary of a service should pay for the service.

These two ideas are often lost or confused in the details of bureaucratic procedures and budget maneuvering. The idea of a single user fee, including levies for customs and immigration services, apparently got lost on its way through the Office of Management and Budget. This is most regrettable.

If the arriving international passenger is the primary beneficiary of INS inspections, there still exists sufficient evidence to demonstrate the enormous value to our economy of international business travel and tourism. Without wishing to reopen the debate on the Immigration User Fee, we still believe that the fee is discriminatory. However, the application of the fee's revenues is even more so.

The revenues from the user fee are to be applied to the salaries of inspectors, the information and automation system applied to immigration inspection and control and the facilities used for such inspections. The Customs User Fee has had to be reconsidered because it did not correspond to the costs being incurred. It seems clear that there is little justification for using the user fee revenues for detention and deportation services. This is not a service that primarily benefits the international passenger who pays the Immigration User Fee.

AOCI does not recommend that the Immigration User Fee be reduced or increased. The funds should be spent to assure that we have adequate numbers of inspectors, equipped for the most efficient performance of their function. To the extent that there are surplus funds left thereafter, they should be applied toward the massive cost of building inspection facilities in international airport terminals. We make this recommendation with the support of the Air Transport Association, which represents the U.S. scheduled airlines. Airports, owned and operated by the citizens of communities, and the airlines, through the airport charges they pay, have to build and pay for inspection facilities. Fairness would demand that the User Fee collected from passengers for inspection services should also be used to help pay for the inspection facilities.

RESPONSIVENESS TO THE PUBLIC

Mr. Chairman, the Immigration and Naturalization Service, like the other federal inspection services, has the power to improve or hinder the efficient movement of international airline passengers, to the benefit or detriment of communities and regions, and of our nation. We have expressed our concern before, however, regarding the difficulty airport operators or other local community officials have in influencing the inspection services' procedures, staffing or the inspection facilities demanded by the federal inspection services. The inspection procedures are archaic, the regulations grow increasingly inappropriate, and the inspection agencies seem unconcerned. It is customary for federal agencies to suggest legislative action to remedy any problems that the agencies perceive. Could not the Congress ask the agencies to reexamine at least part of the regulatory structure each year, with a view to improvement?

Federal inspection services' demands for facilities have grown extravagant. It is not simply a matter of an inspection hall with counters and lanes, office and laboratory space and the necessities for healthy and adequate working conditions for federal employees. The standard guidelines for airport facilities for the inspection services, redrafted by the inspection services this year, inform us that separate men's and women's locker rooms and toilets, for employees of each agency, will be provided. Mr. Chairman, this is unreasonable, and it is representative of the tone and content of the demands we face.

Mr. Chairman and Subcommittee members, AOCI's airports are grateful for your attention to our concerns, now and in the past. We have been critical of the INS, but we want to stress that in general, they perform a difficult job with the greatest professionalism, and our working relationships, all across the country, are close and cooperative. We urge the Subcommittee to give the INS the resources and guidance it needs to continue and improve its service to our nation.

GEORGETOWN UNIVERSITY

The Honorable Ernest F. Hollings, Chairman
The Honorable Warren B. Rudman
Subcommittee on Commerce, Justice, State,
the Judiciary and Related Agencies
Senate Committee on Appropriations
SD-136 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Hollings and Senator Rudman:

I am Father T. Byron Collins, S.J., Special Assistant to President Healy of Georgetown. I write again this year on behalf of the coordinated, national Law-Related Education Program.

You and the Subcommittee have been most supportive of this worthwhile delinquency prevention effort. Most recently, the Committee's report for fiscal year 1988 appropriations noted:

> The Committee intends that the coordinated, national Law-Related Education Program be expanded to include intensive activities in 40 States in fiscal year 1988 and directs that no less than $2,400,000 of this appropriation be committed to proper implementation of this successful delinquency prevention strategy.

S. Rep. No. 182, 100th Cong., 1st Sess. 48 (1987). In previous years, the Committee has also included express language in its reports on appropriations directing funding for this effective program. S. Rep. No. 425, 99th Cong., 2d Sess. 45 (1986); S. Rep. No. 150, 99th Cong., 1st Sess. 42 (1985); S. Rep. No. 206, 98th Cong., 1st Sess. 45 (1983).

Based on the hearings held on reauthorization of the Juvenile Justice and Delinquency Prevention Act we are encouraged that this program will be reauthorized and continue to serve its delinquency prevention goals. We have been working with the authorizing committees to maintain the coordinated, national Law-Related Education Program of delinquency prevention as a top priority special emphasis prevention and treatment program. See Hearing on H.R. 1801 Before the Subcomm. on Human Resources of the House Comm. on Education and Labor, 100th Cong., 1st Sess. 204-19, 223-24 (1988) (Serial No. 100-51).

The proven success of the coordinated, national Law-Related Education Program as a delinquency prevention approach in schools has led to expanding it to directly address the growing problems of drugs and violence among teens in many parts of our nation. As one of the only programs which has been proven to have the potential to prevent a broad range of delinquent acts, law-related education represents a major hope for the future that the often felt unsolvable problems of drugs and violence can in fact be solved.

Law-related education has been shown to change students' attitudes toward authority figures such as judges, police, teachers and parents. It has also caused young people to identify and interact more with peers who are involved in positive community action and reject those who take part in anti-social behavior. The Law-Related Education Program's success is based principally on delinquency prevention theory known as "bonding" whereby youths learn that our legal and governmental systems are based on sound principles which they can identify with causing them to "bond" to society's accepted values and institutions. Students raise their sense of self-worth through participation in activities such as mock trials and community action projects which show them that they can personally be successful and have the ability to contribute to society in many positive ways.

Consequently, during the current year we are working closely with the Office of Juvenile Justice and Delinquency Prevention to adapt these principles and practices which have been the foundation of successful Law-Related Education Programs to bear directly on the problems of drug abuse and teen violence. A law-related education drug education initiative is being planned which will include:

- development of law-related education drug lessons for use in elementary and secondary schools, juvenile justice and community settings.

- training of teachers who will pilot test these lessons at nine sites over the next year.

- a revision of the lessons will take place based on the fieldtest, and then they will be disseminated to our project's forty states through the established Law-Related Education Program OJJDP network.

Realizing that many young people who are most likely to engage in violent behavior and use drugs are not in school, the national, coordinated Law-Related Education Program is prepared to extend its activities into other settings. The expanded dissemination and training activities would include for each type of nonscholastic juvenile justice setting, such as detention centers, correctional facilities, youth group homes and other community settings:

- developing appropriate curricular and training materials with an emphasis on the topics of drugs and violence.

- developing community support by involving community groups, bar associations, law enforcement personnel, court systems, educators and others.

- conducting public-private partnership conferences and other activities on the national, state and local levels.

- training juvenile justice system personnel, educators and supervisors.

- providing on-going technical assistance and coordination.

- directing special efforts at the needs of violent offenders, teen victims of crime, immigrant youth, the

mentally retarded, non-English speaking youth and others.

- o serving as a clearinghouse on efforts nationwide.

Every federal dollar committed to the program is leveraged by state and community contributions an estimated seven times. It has proven productive and cost effective. Efforts to train teachers and provide technical assistance have resulted in increasing opportunities for law-related education for young people in school. Our traditional decentralized system of education requires a continuing and expanding law-related education effort in schools in order to reach students in those school districts and schools not yet involved in this important effort.

Experimental efforts in nonscholastic settings signal the next level of opportunity and involvement. Already efforts with the South Carolina Department of Youth Services in their group homes for delinquent youth; at the Iowa State Training School; with the Ohio Department of Youth Services teachers who work in correctional settings; in cooperation with Youth Service Bureaus in Maryland and through teen community action projects in Michigan, Arizona, and California are yielding promising results. By supporting the extension of these efforts in schools, community and juvenile justice settings, the Federal Government can fulfill the promise of proven approaches for additional segments of our Nation's youth and assist in creating a community-based counterforce for effective civic education.

Evaluations have shown that law-related education can reduce juvenile delinquency when properly implemented. The Office of Juvenile Justice and Delinquency Prevention has noted that evaluations of the Law-Related Education Program have been "encouraging . . . confirming the previous findings that such education serves as a significant deterrent to delinquent behavior." U.S. Department of Justice, OJJDP, Eighth Analysis and Evaluation of Federal Juvenile Delinquency Programs 69 (1985). Among the reported recommendations of the Coordinating Council on Juvenile Justice and Delinquency Prevention in recent years was one encouraging "enhancement of law-related education as a technique to enhance good citizenship and reduce delinquent behavior among America's youth." Id. at 32. The Administrator of OJJDP has noted:

> Maintaining our democracy is not an easy task. Only through education can we hope to teach our young people to be effective, law-abiding, and participating citizens. Law-related education offers a promising vehicle for achieving these goals.

U.S. Department of Justice, OJJDP, Annual Report of the Law-Related Education Program May 1984 to April 1985 i (1986).

Ensuring proper implementation as these programs are replicated across the country is most important and best accomplished by those whose vast experience has been demonstrated by the development of effective curriculum materials and implementation of successful projects. With projects now possible throughout the country, it is most important that this delinquency prevention strategy be effectively coordinated on the state level, as it has been most successfully done through the Law-Related Education Clearinghouse at the College of Criminal Justice at the University of South Carolina and in New Hampshire through the New Hampshire State Bar Association.

In past years the Program, from kindergarten through

twelfth grade, had been able to support intensive activities in schools in only a handful of States and technical assistance efforts for the rest of the Nation. In the last three years, with your support, the intensive, coordinated, national Law-Related Education Program has grown from 11 target States to 34. We have plans to add an additional six States during 1988-89, with two of the six beginning full training and dissemination activities, and four new development jurisdictions.

By the third year of the Program, school year 1986-87, over 1,000,000 youngsters directly benefitted from law-related education training. Over 15,200 teachers from almost 500 school districts were trained; almost 2,800 educational leaders attended leadership training workshops; and over 7,000 State and local leaders participated in public and private sector partnership conferences. The coordinated, national Program has continued to exceed its performance commitments. As States seek to utilize their formula grant funds for delinquency prevention, each dollar of special emphasis delinquency prevention funding for coordination and to ensure effective implementation will further increase in value.

Such activities can only succeed if given an opportunity to take root and grow. Public-private partnership must be assured that their activities will not be abandoned by the national effort and that the federal funding on which plans for this year and the years to come are being predicated will be made available through the Office of Juvenile Justice and Delinquency Prevention.

With no recommendation for reauthorization and no request for juvenile justice appropriations in fiscal year 1989 by the Administration, the Program needs the reassurance that the Congress will support this effort. At a time when world events demonstrate each day the value of a citizenry knowledgeable in democratic principles and committed to the respect for law that is the basis for this country's enduring stability, the Program provides vital opportunities for our Nation's youth. By expanding these proven techniques to address the problems of drugs and violence, the coordinated, national Law-Related Education Program holds one of the greatest promises for the future of our Nation's youth today.

I respectfully request that the Committee act to ensure that the intended fiscal year 1988 appropriation be made available and that fiscal year 1989 funding of the Law-Related Education Program be earmarked at the $3.4 million level to accommodate the expansion of the Program into new settings and jurisdictions and expand the pilot Law-Related Education Program's drug initiative. Funding the coordinated, national Law-Related Education Program, coordinated by those with the expertise necessary to ensure proper implementation, is investing in a law-abiding society and provides training for responsible members of society for our future. I urge your continued support and look forward to working with you and your staff in this year's appropriations process.

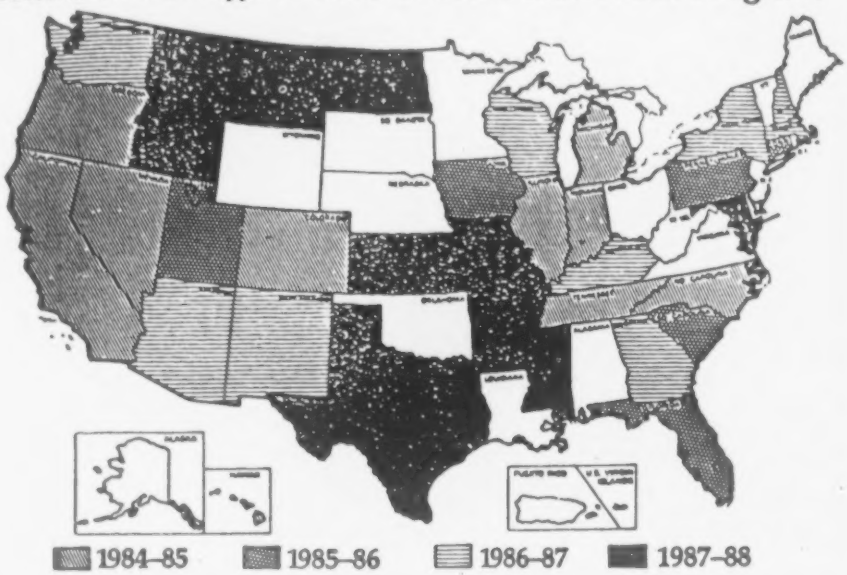
Sincerely yours,

T. Byron Collins, S.J.

T. Byron Collins, S.J.

Enclosure

States in the OJJDP Law-Related Education Program



1984-85 OJJDP Target States

California: Todd Clark, Education Director, Constitutional Rights Foundation, 601 South Kingsley Drive, Los Angeles, CA 90005, 213/487-5590.

Alita Letwin, Law in a Free Society, 5146 Douglas Fir Road, Calabasas, CA 91302, 818/340-9320.

Colorado: James Giese, Social Science Education Consortium, 855 Broadway, Boulder, CO 80302, 303/492-8154.

Barbara Miller, Colorado Legal Education Project, 855 Broadway, Boulder, CO 80302, 303/492-8154.

Florida: Ron Cold, LEGAL Project, School Board Administration Building, Dade County Public Schools, 1450 N.E. 2nd Avenue, Rm. 933, Miami, FL 33132, 305/376-1951.

Hawaii: Claudio Suyat, Program Specialist-Social Studies, State Department of Education, 189 Lunalilo Home Road, 2nd Floor, Honolulu, HI 96825, 808/395-8573.

Illinois: Carolyn Pereira, Director, Constitutional Rights Foundation, 220 South State Street, Suite 730, Chicago, IL 60604, 312/663-9057.

Indiana: Connie Garriott Yeaton, Coordinator of Law-Related Education, 3377 Woodland Place, Columbus, IN 47203, 812/372-1866.

Michigan: Linda Starr, Michigan Law-Related Education Project, Oakland Schools, 2100 Pontiac Lake Road, Pontiac, MI 48054, 313/858-1947.

Nevada: Phyllis Darling, Social Studies Consultant, Clark County School District, 600 N. Ninth Street, Las Vegas, NV 89101, 702/799-8468.

Jim Bean, Jim Bean Consulting Assoc., P. O. Box 3328, Carson City, NV 89702, 702/883-9360.

North Carolina: Doug Robertson, Division of Social Studies, North Carolina Department of Public Instruction, Educational Building, Room 255, Raleigh, NC 27611, 919/733-3829.

Oregon: Marilyn Cover, Director, Lewis and Clark Law School, J0015 SW Terwilliger Blvd., Portland, OR 97219, 503/244-1181.

Tennessee: Dorothy Skeel, Director, Tennessee LRE Project, Peabody Center for Economics and Social Studies Education of Vanderbilt University, Box 320, Nashville, TN 37203, 615/322-8090.

1985-86 OJJDP Target States

Connecticut: Denise Merrill, LRE Coordinator, State Dept. of Education, Box 2219, Hartford, CT 06145, 203/566-5871.

Florida: Annette Pitts, The Florida LRE Association, Inc., Supreme Court Building, 500 South Duval Street, Tallahassee, FL 32399-1906, 904/681-6150.

Iowa: Kathy Collins, Grimes State Office Bldg., Department of Public Instruction, Des Moines, IA 50319-0146, 515/273-2055.

Pennsylvania: Beth E. Farnbach, Executive Director, Law, Education and Participation (LEAP), Temple University School of Law, 1719 North Broad Street, Philadelphia, PA 19122, 215/787-8948.

South Carolina: Jack C. Hanna, Law-Related Education Consultant, South Carolina Bar, 1321 Bull Street, Columbia, SC 29211, 803/799-6653.

Utah: Nancy N. Mathews, Project Director, Utah Law-Related Education Project, 250 East Fifth South, Salt Lake City, UT 84111, 801/533-5891.

1986-87 OJJDP Target States

Arizona: Teena Olszewski, Arizona Center for Law-Related Education Project, State Bar of Arizona, 363 North 1st Avenue, Phoenix, AZ 85003, 602/252-9163.

Georgia: Pat Van Decar, Director, Georgia Southern College, Department of Elementary Education, Statesboro, GA 30458, 912/681-5122.

Kentucky: Bruce Bonar, Associate Director, Model Laboratory School, Eastern Kentucky University, Richmond, KY 40475, 606/622-1033.

Massachusetts: Robert Clayman, Coordinator, Courts and the Classroom, District Court, Administrative Office, Holyoke Square, Salem, MA 01970, 617/745-9010.

New Hampshire: Carter Hart, State of New Hampshire, Department of Education, 64 North Main Street, Concord, NH 03301, 603/224-6942.

Sally Jenson-Ricciotti, New Hampshire Bar Association, 18 Centre Street, Concord, NH 03301, 603/224-6942.

New Mexico: Sigrid Olsen, Director, New Mexico LRE Project, 1605 Carlisle, NE, Suite A5, Albuquerque, NM 87110, 505/265-1797.

Kate Weinrod, New Mexico LRE Project, 1605 Carlisle, NE, Suite A5, Albuquerque, NM 87110, 505/265-1797.

New York: Eric Mondschein, Director, Law, Youth and Citizenship Project, New York State Bar Association, One Elk Street, Albany, NY 12207, 518/474-1460.

Washington: Ann Sweeney, School Program Coordinator, Today's Constitution and You, Metro Center YMCA, 909 4th Avenue, Seattle, WA 98104, 206/382-5013.

Wisconsin: Elmer Winters, University of Wisconsin-Eau Claire, 1309 Taft Avenue, Eau Claire, WI 54701, 715/836-4548.

1987-88 OJJDP Target States

Arkansas: Becky Thompson, Director, Criminal Law Education, Arkansas Schools, Attorney General's Office, 201 E. Markham, Little Rock, AR 72201, 501/371-2007.

Idaho: Diane Minnick, Idaho Law Foundation, P.O. Box 895, Boise, ID 83958, 208/342-8958.

Kansas: Mary Lou Davis, State Department of Education, P.O. Box 1037, Topeka, KS 66601, 913/296-4933.

Maryland: Rick Miller, Director, Citizenship/LRE Program for Maryland Schools, UMBC/MP 007, 5401 Wilkens Ave., Baltimore, MD 21228, 301/455-3239.

Mississippi: Nancy Brown, Mississippi State Department of Education, 1304 Walter Sillers Bldg., 550 High Street, Jackson, MS 39205-0771, 601/359-3768.

Missouri: Steve Jenkins, Resource Center for LRE, Bar Association of Metro St. Louis, One Mercantile Center, Ste. 3600, St. Louis, MO 63101, 314/421-4134.

Montana: Edward Eschler, Social Studies Specialist, Office of Public Instruction, State Capitol, Helena, MT 59620, 406/444-4433.

North Dakota: Penny Barry, Director, Communications Dept., State Bar Association of North Dakota, P.O. Box 2136, Bismark, ND 58502, 701/255-1404.

Texas: Hope Lochridge, LRE Project, State Bar of Texas, P.O. Box 12487, Austin, TX 78711, 512/463-1388.

1988-89 Proposed OJJDP Target States

Alaska
District of Columbia
Louisiana
Maine
New Jersey
Rhode Island

TESTIMONY OF

THE COASTAL STATES ORGANIZATION

The Coastal States Organization, a representative association for the governors of the 35 coastal states, commonwealths and territories, appreciates the opportunity to present our views in support of coastal management programs authorized under the Coastal Zone Management Act (CZMA).

While substantial progress has been made since the beginning of the national coastal management program in 1972, much more needs to be done. The coastal states are willing to continue implementing this national program, but in order to do so we must have continued federal financial assistance. We therefore request the Subcommittee approve for FY89 $37.7 million in Section 306-306A grants, $1 million in Section 309 grants, and $3.4 million in Section 315 grants, as authorized under the CZMA.

Coastal Management: A National Program Implemented by the States

Presently, twenty-nine states, Commonwealths and Territories participate in the national coastal management program, with a strong likelihood of Ohio becoming the thirtieth participating government by 1989. Since the CZMA was enacted 16 years ago, major successes have been achieved by these states for the benefit of the entire nation. Recreation for the nation's citizens on America's shores has greatly improved and expanded. Commercial and military ports and harbors have been restored and better maintained. Urban waterfronts have been revitalized, opening up tremendous new commercial opportunities. Irreplaceable wildlife habitat and wetlands have been preserved. Shoreline erosion, an ever-increasing threat, is being addressed through property loss prevention initiatives sponsored by coastal management programs. Overall, the wise and orderly development of the nation's coastal areas has occurred under the CZMA, with many examples of economic growth,well-planned residential communities, shoreside parks, fishing piers and much-needed beach access and recreational improvements.

Collectively, these 29 state coastal management programs, covering 94 percent of the nation's 95,000 miles of shoreline,

produce real and tangible benefits for the nation in the areas of economic growth, public recreation, resource conservation, environmental protection, and national defense.

By the late 1990s, an estimated 80 percent of the population will live within 50 miles of the ocean or Great Lakes. In some areas, such as the Southeastern United States, the population is expected to more than double by the turn of the century. In the Great Lakes region, water levels have fluctuated tremendously, causing over $240 million in damages since 1985. Scientists predict that the sea level will rise; as the sea level rises, permanent inundation, beach erosion, increased flooding, and saltwater intrustion will occur in coastal areas around the nation.

Other challenges facing coastal states and territories include: loss of wetlands, contamination of aquifers and salt water intrusion, demand for private marina and docking facilities, beach erosion, hurricane hazard mitigation, the proliferation of condominiums and hotels in previously remote coastal areas, seasonal population growth in coastal resorts, water quality deterioration, conflicts between water-dependent and non-water dependent uses, houseboats, public access, energy facility development, preservation of open space, facilities for commercial and recreational fisheries, aquaculture, harbor development projects and potential impacts from offshore mineral mining, ocean incineration operations and dredged material and hazardous waste disposal siting.

These phenomenal pressures, whether induced by natural events or man, if allowed to occur without proper planning and management, will only result in severe long-term degradation of all of the country's coastal resources: ecological, recreational, residential, commercial and defense. We are entering a crucial period where activities in the nation's coastal regions are intensifying, requiring skillful management from all sectors, public and private. The framework and mechanisms to address these problems exist now through the CZMA.

Coastal Management -- A Bargain

The ratio of federal CZM project dollars invested by states and local governments to that invested by public and private sources is often impressive. All in all, the national interest is served by the CZMA in the areas of the national economy, energy production, health and safety, recreation, habitat preservation and national

defense. To demonstrate this, just a few examples are offered here:

- Martin County, Florida, used a $27,500 CZM grant to develop beach access plans which resulted in a $5 million local bond issue to purchase prime beachfront property.

- Folly Beach County Park, South Carolina. Revenue from entrance fees alone approaches about $150,000 per year. Over the five years it has been open, more than $6 million in direct private income has been derived from visitation. This is the result from an initial CZM grant of only $167,500--a return on investment of 125:1.

- City of Georgetown Waterfront Boardwalk project, South Carolina. Beginning with a base of $30,000, the project has already attracted 57 new businesses, and more than $2 million in private investment during the planning stages alone. Conservative estimates anticipate investments of $8-10 million dollars over the next five years.

- Oregon has reserved over 2,500 acres of the state's coast for future water-dependent commercial and industrial development, providing a solid base for increased commerce in the future.

- Michigan has invested nearly $360,000 of state funds to relocate 119 homes that were in imminent danger of damage or destruction due to coastal erosion. This investment is projected to save millions of dollars of federal funds that otherwise would have to be paid through Federal Flood Insurance.

- Michigan has put nearly $1 million into 44 beach access improvement projects, such as shoreline walkways with fishing nodes, stairways, riverwalks, and coastal trails.

- Florida has used $1,570,500 of CZM grants for the development of Hurricane Evacuation Plans and Loss Studies. The success of this planning was evident during Hurricanes Elena and Kate when thousands of residents were evacuated quickly and safely. How many federal dollars can be saved by limiting declarations of national disasters?

- Bath Iron Works Naval Shipyard in Maine was able to expand its Portland operations and position a massive floating drydock capable of submerging to a depth of 65 feet.

- New York City Harbor has recently installed a state-of-the-art tide gauge system that will enable ships and barges in the harbor and along the Hudson River to increase cargo loads, reduce vessel layover time, and avoid accidents.

- Oregon has invested $238,000 over the last four years developing a 24 acre tidal marsh to serve as a mitigation bank for future wate--dependent industrial development.

- Oregon, with CZM grant monies, published 500 copies of an award-winning handbook, "Permit Aerobics," designed to help local officials streamline the permitting process, and resulting in significant cost savings for developers.

- Oregon has spent $348,465 of CZM grant monies for the construction of 14 new public access points along the coast. These have added significantly to Oregon's $1.5 billion tourist industry.

- Massachusetts has applied $160,000 of 306 funds to implement an $18 million bond program for coastal facility revitalization to improve waterfront facilities, tourism and public access. This 306 money has been responsible for the construction of a piers, bulkheads, marinas, boat ramps, waterfront parks and multi-use projects. In addition, the bond amount was matched by another $17 million of state funds. Thus, the small, but effective use of $160,000 in 306 monies will result in excess of $34 million in achieving national interest objectives.

- Maryland has conducted a $30,000 marina siting study to locate preferred marina locations by private investors. A ten-fold increase in private investment is anticipated as a result of this study.

- Wisconsin is applying $100,000 to waterfront revitalization in the form of adding 58 marina slips at the City of Superior Marina. The economic impact of this expansion is estimated to result in $250,000 per year.

These examples deal with financial investments where the returns can be easily quantified or the benefits are recognizable in financial terms. Non-quantifiable, non-financial benefits to the nation also are a mainstay of the national coastal management program. Some examples of these benefits are:

- Fisheries and Wildlife - Roughly 70% of all U.S. commercial

fishing takes place in coastal waters. Further, an average of about 2/3 (and up to 98% in the Gulf Region) of commercially important fish species are dependent upon estuaries and coastal wetlands in their life cycle. Protection of these estuaries and wetlands, possible only with an effective coastal management program, may well do more to protect these stocks than any fishery management plan.

- Habitat Protection - state CZM programs also protect critical habitat for wildlife, water fowl and threatened and endangered species. In this manner state CZM programs directly complement other federal and international programs for protecting and managing migratory waterfowl, as well as reinforcing the Endangered Species Act.

- Public Access - Public access to the nation's coasts has improved significantly as a result of state coastal management efforts. Under the sponsorship of the CZMA, states have built boardwalks and stairways, bike paths, roads, fishing piers, waterfront parks and recreational facilities, open to all Americans, designed to increase public access to the coasts.

- Tourism - By fostering sound resource management and development, CZM Programs promote tourism--an increasingly important industry to the national economy. Having better public access, cleaner, safer beaches and waterfronts, and special features like wildlife reserves and fisheries, well managed coasts attract larger numbers of tourists to coastal areas. What's more, benefits to the travel and tourist industries have a multiplier effect on coastal dependent industries as tourists who come to the coast enjoy local goods and services.

Estuarine Reserve Management

Section 315 of the CZMA established a series of estuarine sanctuaries to provide long-term protection for representative estuarine areas through land acquisition or purchase of conservation easements. In the 1985 CZMA reauthorization, the estuarine sanctuary system was renamed the National Estuarine Reserve Research System to re-emphasize the role of the System as a series of "natural laboratories" for scientific research to aid national coastal management.

As with other programs under the CZMA, the Section 315 program is

a federal-state partnership with federal funds covering up to 50% of a state's costs for acquisition, operation and management of an estuarine reserve. Currently, the System consists of 16 designated reserves with a 17th site, Waquoit Bay, MA, expected to be designated this year. In addition, the final EIS and management plan was released this January for an 18th site, Great Bay, NH. These 18 sites represent an area of over 285 thousand acres set aside by states for long-term protection, to increase public awareness of the coastal resource and to allow long-term scientific research.

RECOMMENDED APPROPRIATIONS

Overview

Despite rhetoric in executive orders on federalism, empty speeches on a federal/state partnership, and promises to reduce the federal bureaucracy, the states have witnessed repeated efforts by the Administration to terminate the national coastal management program, and, at the same time, support a number of separate federal ocean and coastal initiatives. The Coastal Zone Management Act (CZMA), if not the only example, is certainly one of the best examples of an active "federalism" statute. The CZMA is a federal-state partnership. By design, the federal bureaucracy required to imple- ment the national coastal management program is to be small, with the states administering the program in accordance with federal standards.

Nonetheless, we have witnessed an eight year record of proposed zero-funding for this important program. The states have continuously fought intrusive, heavy handed oversight by NOAA. The states have found themselves opposed in federal court case after federal court case by a Department of Justice that argues against the Commerce Department's program. Nearly every year the states must fend off NOAA's reprogramming requests or the Administration's recission requests. Had it not been for the continued support of this Subcommittee, the national coastal management program would have come to an end years ago.

We must also point out that as the Administration seeks to reduce the budget by terminating funding from the only comprehensive national program to manage the nation's coastal resources, the same Administration supports the funding of several other federal coastal and ocean initiatives--initiatives that are often single purpose, with no practical link to national coastal management, and lacking

in coordination and national oversight. For example, the Environmental Protection Agency is providing over $12 million for a variety of new coastal initiatives, including near coastal waters strategic plan pilot projects and expansion of the national estuary program. The Department of the Interior has requested funding for its coastal barrier islands program and NOAA has proposed increasing funding for oceanic research activities.

CSO recognizes the importance of these federal coastal and ocean initiatives. However, we find the Administration's unwillingness to fund state coastal programs under the CZMA to be inconsistent with its support for new federal ocean and coastal initiatives. After all, these state CZM programs, once federally-approved, were intended by Congress to be the intergovernmental mechanism to coordinate the very federal programs supported by the Administration.

The Administration has apparently decided, as it has since 1980, to ignore the intent of Congress and propose the termination of federal funding support to states for the implementation of the national coastal management program -- the only national program which allows federal, state and local governments to cooperatively and comprehensively manage the country's coastal resources. Instead, the Administration would rather request funds for single-purpose, often fragmented federal coastal resource programs. We take strong exception to this inconsistent budgetary policy and piecemeal approach to resource management.

Since 1972, and especially during the last eight years, Congress has preserved the national interest in protecting our nation's coastal areas for the enjoyment of all of Amercians. Through the appropriations process, Congress has provided for the necessary planning to protect life and property in the event of severe storms and hurricanes. Congress has seen the wisdom in restoring urban waterfronts, maintaining and improving ports and harbors, fighting coastal erosion, preserving vital habitat, planning for enhanced residential coastal communities, and the wise management of coastal development. Congress has seen that all of these diverse benefits can be achieved under a single statute, and for a nominal price.

We recall that when the CZMA was reauthorized in 1985, an informal agreement was struck between the states and Congress. In return for a multi-year reauthorization of the CZMA, the states accepted a 50% reduction in CZMA program authorization levels and a 150% in-

crease over time in the CZMA state grant matching requirements. CSO appreciates this Subcommittee's continued support in reinstating appropriations for CZMA over the years. Unfortunately, the truth of the matter is that such appropriations have not kept pace with the authorization levels or the rising costs of coastal management (See attached charts). In FY88, participating states realized a 7.65% decrease from the previous year -- without considering inflaction. FY88 state CZMA grant allocations are in further jeapordy of significant decrease due to the proposed NOAA FY88 reprogramming request.

The coastal states looked to the reauthorization agreement to guide the long-term state CZM program and budget planning. Predictability of federal support was one of the key elements of this agreement between Congress and the coastal states. In fact, in an effort to make up for the shortfall in federal appropriations, many states have been forced to invest more than their required matching share into the national coastal management program. For example, in FY88, Connecticut appropriated $960 thousand although only $500 thousand was required to match federal funds. Likewise, Michigan in FY88 appropriated $750,000 more than was required, Delaware appropriated $825 thousand when only $248 thousand was required, and Maryland spent $1.8 million when $857 thousand was required. It must be emphasized, however, that no state, no matter how willing, is able to fund the entire cost of its federally-approved coastal management program.

We know that in these times no domestic program is completely safe from budget deficit reduction requirements. But one thing must be emphasized time and again. The state-federal partnership created by the CZMA works. The investments made in the past have paid off, and will continue to pay off to the benefit of the entire country. The benefits are real, they're tangible, and the investment is affordable.

Section 306 and 306A Grant Assistance

Over the last seven years states have had to make the most of the available federal CZMA grant assistance to "hold the line" and maintain their existing federally-approved CZM programs. Unfortunately, because of this limited federal CZMA grant assistance, the states are being forced to redirect whatever section 306 (Administrative Grants) monies are available towards the mere survival of their core coastal program. Efforts to expand their programs to meet worsening coastal problems, such as coastal pollution, have

largely gone wanting. Moreover, states are in- creasingly unable to meet the statutory requirements of CZMA section 303(2), to spend 20 to 30 percent of their section 306 grant funds to fulfill certain "significant program improvements". This requirement means that states can apply no more than 80 cents of every federal dollar received to their state's basic coastal program.

This funding situation provides no assurance that the coastal resource management needs of the country will be met or that the intent of the CZMA will be fulfilled. CSO realizes, however, the need to reduce the federal budget deficit. Until the federal budget deficit is sufficiently reduced, domestic programs should generally expect level funding. Therefore, CSO, although recognizing the extensive national benefits of coastal management, the growing coastal resource management needs of the country, and increasing CZMA program authorization levels ($38.8 million for section 306-306A grants) respectfully request a FY89 CZMA section 306-306A appropriation of $37.7 million.

This request will serve three purposes. First, the 29 federally-approved CZM programs will be funded at the level recommended by this Subcommittee for FY88. Second, $1.9 million will be provided to offset the unanticipated cost of including the Commonwealth of Viriginia as one of the national program participants in September, 1986. Third, an additional $800,000, based on the established section 306 grant formula, will be provided for the state of Ohio when it becomes the next state to participate in the national coastal management program.

The Ohio State Senate is expected to approve in May legislation necessary for a federally-approved coastal management program for the state. Final action in the Ohio House is expected by November. It is very likely that this legislation will become state law and Ohio will become eligible to participate in the national coastal management program. The recommendation of this Subcommittee to include FY89 section 306 funds for the State of Ohio will be an added incentive, as intended by the CZMA, to encourage Ohio's participation in the national program.

Member states of the CSO realize that in recommending an even level of federal CZMA funding for FY88, the coastal states will have to absorb an increase in their federal grant matching requirements from 60/40 to 50/50.

Experience has shown that the full cost of national coastal

management amounts to more than the sum of required state match and federal appropriations. To meet their full CZM needs, a number of states pay more than their required share. But on balance, CSO feels that a Section 306 and 306A appropriation of $35.8 million is reasonable in terms of both the importance of continuing the national CZM program, and balancing the federal budget.

Section 309 Grants

CSO believes that the coastal states' interstate efforts to identify and resolve mutual coastal concerns deserve continued federal funding support. A good example is the 29-state national public trust study to investigate the application of this long-standing legal doctrine, recently the subject matter of a U.S. Supreme Court case, to the present day needs of coastal managers.

Other examples of beneficial interstate efforts include a three state effort to develop a hurricane evacuation plan. As that plan is nearing completion, the states are considering utilizing Section 309 funds to produce a hurricane loss study and contingency plan. This type of effort has been successful in a number of areas in Florida, and consists of assessing damage to public or private property, and developing plans to deal with the aftermath of a hurricane.

The eight Great Lakes states have also initiated the first phase of the Great Lakes Regional Water Quantity Data Management Project. Under this project the eight states will pool their data, in a common format, on water withdrawal, water return and consumptive use. Section 309 funding has been appropriated to fund the first stage of this project: identifying what data is collected, determining how to collect the data in a common format, and how to process and easily retrieve it -- all in a timely fashion. The second phase, impossible without continued Section 309 funding, is implementation of this project. Once implemented, this eight-state program will be coordinated with NOAA, the USGS, and the Canadian government. Without continued Section 309 funding, the nation's investment in phase one of this program will not achieve the intended results.

Other examples are available but we feel that the message is clear: Section 309 programs, conducted at the state level, have great national interests in terms of saving lives and property in addition to maximizing coastal management efforts by individual

states. To continue these programs, the CSO requests the full authorized amount to be appropriated in FY89, $1.0 million.

Section 315 Grants

The Coastal States Organization supports appropriation of $3.4 million for Section 315 estuarine reserve grants, or $541 thousand over the FY88 level prior to the deficit reduction adjustment. This increase is necessary to allow for the addition of 2 sites (Waquoit Bay, MA and Great Bay, NH) which will be designated in FY89, as well as to support scientific research, monitoring and education programs at existing estuarine reserves.

An increase in Section 315 grants is justified not only by the expected addition of the 2 sites listed above, but by the expanding state and public interest in adding additional sites to complete the reserve system. For example, Maryland has already submitted a proposal to NOAA for 5 additional sites in the Chesapeake Bay, and Virginia plans to propose several sites on the Virginia side of the Bay. NOAA has also been approached by Delaware, Louisiana, Texas and New Jersey about possible reserve sites in those states. The estuarine reserve system was originally envisioned by Congress as consisting of 25-30 sites representative of the various biogeographic zones of the U.S. The growing state monetary commitment and interest in the completion of the national system deserves continued Congressional support.

Another reason for our requested increase in Section 315 grants is the need to support education and research programs at a greater number of estuarine reserves. In the early years of the Reserve System, state reserve managers were predominantly occupied with site acquisition and facility construction. However, as individual reserves mature, an increasing number are turning to fulfilling the public education and scientific research mandates of the CZMA. Eleven of the reserves now have active education programs, and a growing number have research laboratory facilities and provide researchers with logistical support such as site access, field equipment and housing.

Over the last few years, NOAA's Marine and Estuarine Management Division has received an increasing number of proposals for research to be conducted at estuarine reserves. Unfortunately, this growth in research interest has been met by declining Section 315 research dollars: in FY88, just $530 thousand was available to fund peer-

reviewed research in the System, down from $584 thousand in FY87. If the reserve system is ever to fulfill its mission of contributing to a scientific basis for coastal management, this trend must be reversed.

Separate CZMA Budget Item

We also strongly urge that the states' CZM account be re-instituted as it was prior to FY88, as a separate NOAA budget item. The administrative practice of including CZM funding within the ORF (Operations, Research and Facilities) account of NOAA, should not be continued. To do so, makes CZM state grant funding easy prey to an agency which has repeatedly, like this year, sought to reprogram state CZM monies for other ORF purposes, and has for eight con-sectutive years proposed the elimination of federal funding support for state coastal management activities.

CONCLUSION

The need for appropriating federal funds for the national CZM program cannot be overemphasized. The coastal states support and are committed to the national CZM program. In order for the coastal states to responsibly meet their stewardship obligations for the nation's coastal zone, adequate funding must go hand in hand with the federal government's commitment to continue this national program.

Continued federal financial support of state CZM programs is clearly justifiable for the following reasons:

- First and foremost, funding the CZMA program directly supports national objectives for economic development balanced with resource protection, urban waterfront revitalization, public access and national security.

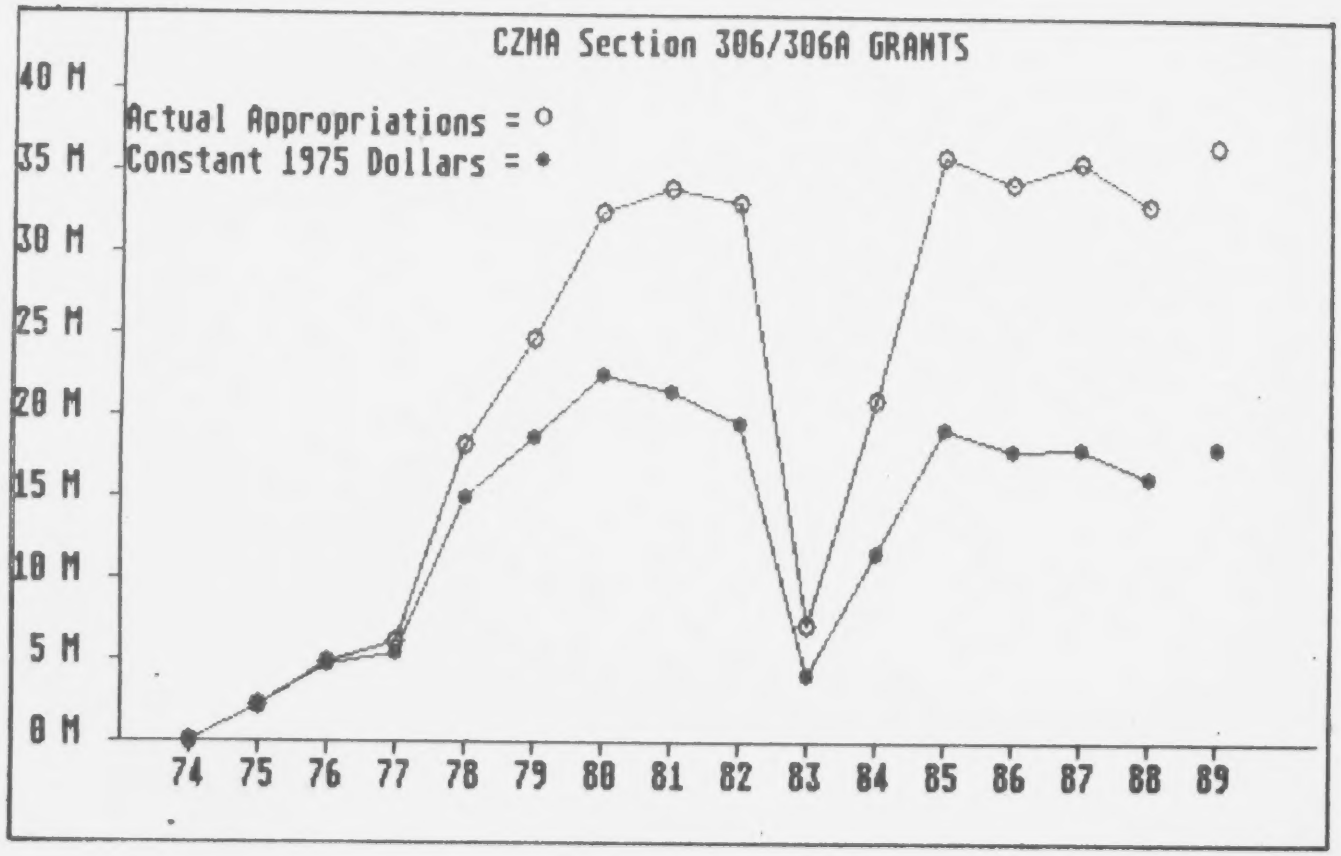
- Second, most coastal states are financially unable to carry full responsibility for managing this nation's ocean and coastal resources.

- Third, not all states desiring to join the national CZM program have yet done so. Section 306 funds should be provided for the state of Ohio as an incentive, as intended by the CZMA, to encourage Ohio's participation in the national program.

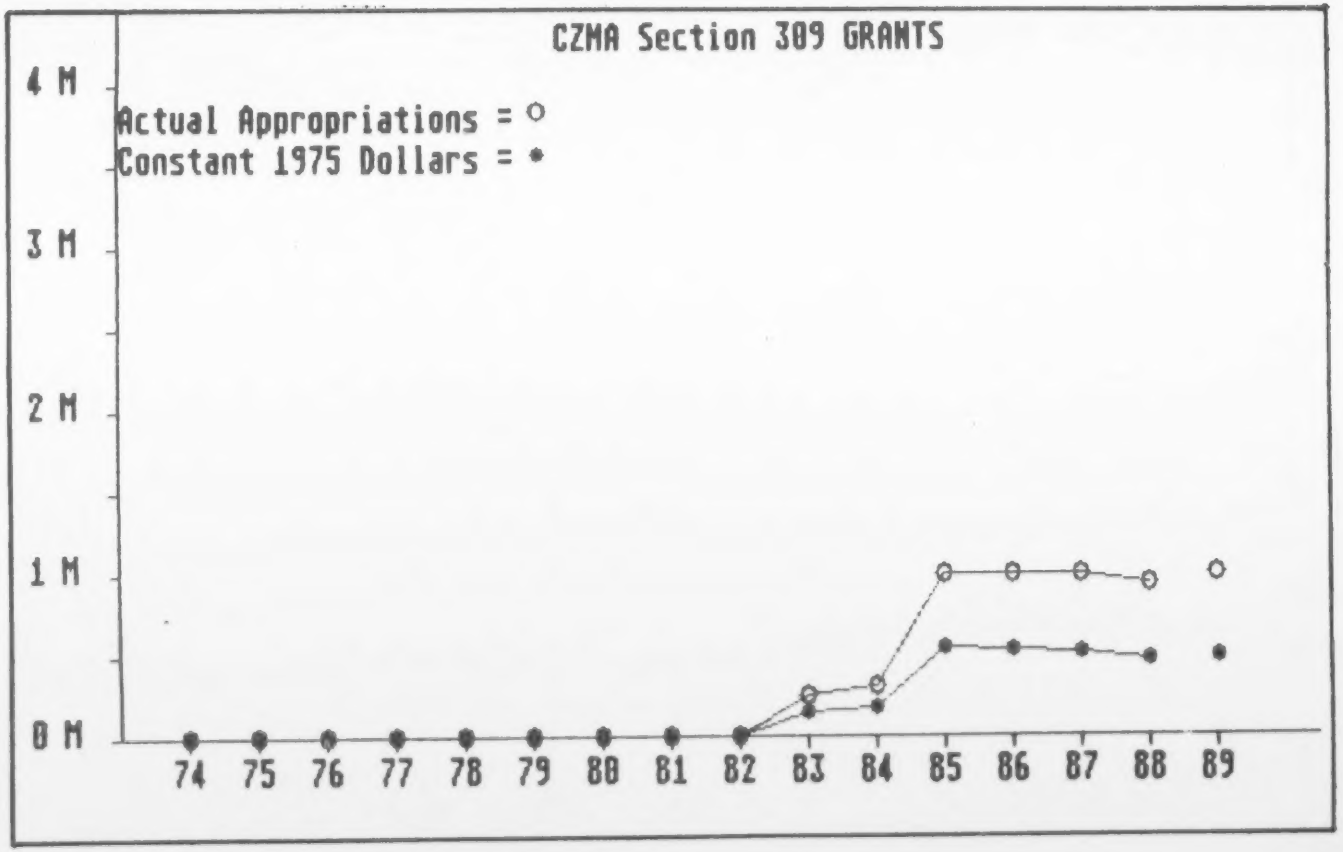
In sum, the Coastal States Organization strongly urges this Subcommittee to approve $37.7 million for section 306-306A (Administrative) grants, $1.0 million for section 309 (Interstate) grants, and $3.4 million for section 315 National Estuarine Reserve Research System) grants. These recommended appropriations are essentially level funding of coastal management programs, and a necessary increase for state estuarine research reserves.

Coastal states have shown a willingness to accept their legitimate role as managers of this nation's ocean and coastal resources and to form a strong, viable partnership with the federal government. They must, however, have the continued financial support to do so. The Coastal States Organization respectfully urges this Subcommittee to again take a leadership role in preserving these important national programs by adopting our recommended funding levels for state coastal management grants to maintain this partnership.

Thank you.



Source: Coastal States Organization (1988). Based upon U.S. Department of Commerce Constant Dollar Multipliers.



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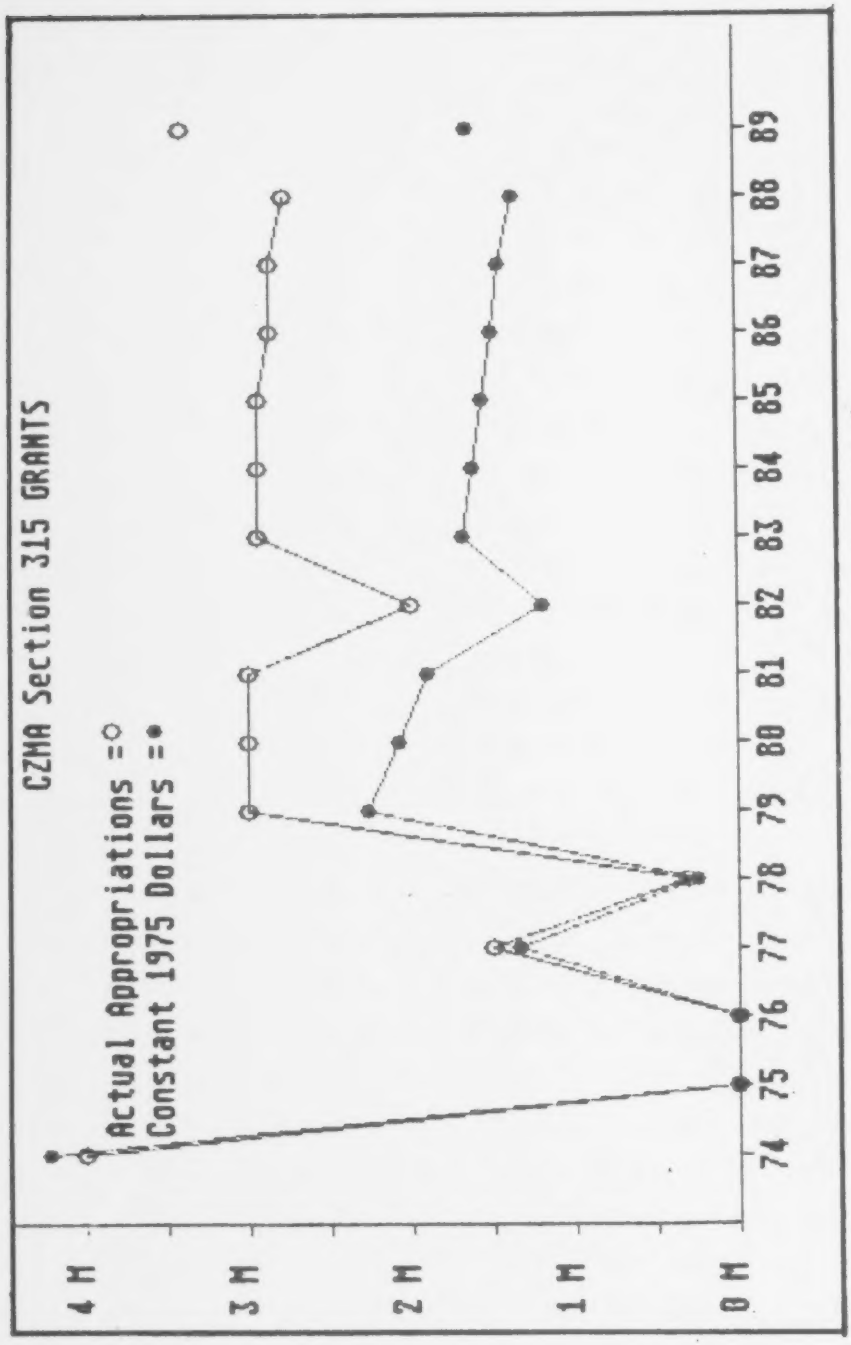


Source: Coastal States Organization (1988). Based upon U.S. Department of Commerce Constant Dollar Multipliers.

TESTIMONY OF

ELIZABETH A. BLAIR

CHAIR, NATIONAL ESTUARINE RESEARCH RESERVE ASSOCIATION

Mr. Chairman and Members of this distinguished Subcommittee, I am grateful for the opportunity to submit testimony on behalf of myself and my colleagues. My name is Elizabeth Blair, and I chair the National Estuarine Research Reserve Association (NERRA). NERRA is an association of on-site Reserve Managers and other state staff of the designated and proposed National Estuarine Research Reserves. I would like to present our views in support of an appropriation for state grant programs pursuant to Section 315 of the Coastal Zone Management Act (CZMA) for the National Estuarine Reserve Research System.

The President's request for $1.259 million for this program is woefully inadequate. This year we again rely on the leadership of this Subcommittee and Congress to restore the funds necessary to continue the strong Federal-state partnership in developing a representative network of long-term research sites to improve coastal management. Although NERRA fully concurs with the Congressional CZMA reauthorizing committees that the $5 million authorized appropriation for FY88 for Section 315 grants is the appropriate level of funding for the Research System to achieve its mandated purposes, we are well aware of current pressures to limit Federal spending.

Accordingly, NERRA urges this Subcommittee to recommend to Congress an appropriation of $3.4 million for Section 315 grants for FY88. This sum would provide for our minimum needs, and would enable the System to continue operation of mandated programs at an essentially constant level of funding given both the upcoming addition of two new sites and the development needs of a maturing network of research sites.

THE NATIONAL ESTUARINE RESERVE RESEARCH SYSTEM

The National Estuarine Reserve Research System includes over 275,000 acres of estuarine waters, tidal wetlands, shallows, and shoreline preserved as a unique system of natural field laboratories for long-term research, monitoring, and public education about the natural and human processes affecting our estuaries. The 16 sites now included in the System are representative of many of the different coastal regions and estuary types in our nation. Sites range from the rocky coasts of Maine south to Carolinian barrier island systems and West Indian mangroves, and west to Pacific sloughs and productive Columbian wetlands. Reserve sites are located in Washington, Oregon, California (2), Hawaii, Alabama, Florida (2), Puerto Rico, Georgia, North Carolina, Maryland, New York, Ohio, Rhode Island, and Maine.

The Stratton Commission is credited with the original vision for a completed network of 25 to 30 long-term research sites representatve of 27 biological and geological regions. Now slightly more than half complete, the System will be expanded later this year with two new sites in Massachusetts and New Hampshire. In addition, Texas, Louisiana, Delaware, and New Jerey are also seeking designation of national estuarine research reserves, indicating the continued strong support from coastal states and the public for new sites.

SECTION 315 GRANTS

Section 315 provides for the development of this Research System by authorizing grants to coastal states for up to 50 percent of the cost of land acquisition, site operation and management, construction of research and education facilities, educational and interpretive activities, and research and monitoring. Within NOAA, the Marine and Estuarine Management Division (MEMD) administers these grants. The Federal contribution to reserves is nearly always exceeded by state, local

and private matching funds, often several times over. At Waquoit Bay, Massachusetts, for example, NOAA grants of $1.8 million will be matched by almost $10 million in state funds. In addition, these investments have improved the site's chances of receiving $2.3 million in National Science Foundation funds later this year to establish and operate a Long-Term Ecological Research site.

Because of steady growth in the number of designated sites, the System now contains reserve sites at all stages of development. While many sites are still acquiring land, others have completed land acquisitions and now face growing public demand for their programs, services, and information. These sites continue to need support to fund research, monitoring, and educational facilities and programs. Resource inventories, environmental impact statements, and management plans must also be prepared for new sites added to the System.

RESEARCH AND EDUCATION FOR IMPROVED COASTAL MANAGEMENT

The Coastal Zone Management Reauthorization Act of 1985 highlighted two important roles for the Estuarine Research System, 1) to stimulate, coordinate, and translate estuarine research in support of improved coastal decision-making, and 2) to enhance public awareness and understanding of the nation's estuaries.

In 1987, the sites in the National Estuarine Reserve Research System attracted nearly a quarter of a million visitors. This figure includes about 50,000 people who visited interpretive centers or participated in guided tours, classes, symposia, workshops, or school programs. Federal assistance has been instrumental in creating opportunities for the public to learn about estuaries and coastal management.

Site visitation and participation in education programs throughout the System are growing by leaps and bounds. Once again our success is tied to timely Federal development assistance. At the South Slough National Estuarine Research Reserve (NERR), for instance, the completion of a visitors' center in mid-1985

resulted in a ten-fold increase in the number of visitors to the site -- from 900 in 1984 to 10,130 in 1987, with an estimated 15,000 due in 1988. The cost of this facility, complete with interpretive exhibits, staff offices, meeting space, and parking lot was only $350,000 -- the price of a single-family home in many coastal areas, almost one third of the President's proposed FY88 appropriation. Other Federal investments at many other reserve sites have been similarly rewarded by wider public participation in reserve programs and an increased appreciation of estuaries.

Scientific research in the only nation-wide network of estuarine research reserves continues to address NOAA's national estuarine research priorities, as identified in Estuarine Program Office guidelines. In many cases, scientists working at the reserves have learned enough basic information about the natural site patterns and variations for the sites to be good indicators of current trends and conditions, as well as excellent reference points for less-pristine sites in similar estuaries.

MEMD's highly competitive research awards supported 84 research projects in the System from 1985 to 1987. Unfortunately, total available research dollars declined nearly 10 percent in 1987 to $530,000, and MEMD was able to fund only 17 projects. These 17 projects are only a subset of research proposals that are rated excellent by both peer reviewers and MEMD staff. If the reserve system is going to fulfill its mission and if national estuarine research priorities are to be addressed, this trend must be reversed, particularly since MEMD is the <u>only</u> Federal office actively directing funds to address national estuarine research priorities.

It should be noted that the minimal Federal dollars provided through MEMD attract supplemental research funds from other Federal agencies, states, local governments, private foundations, and not-for-profit research institutions. These research dollars are directed to sites which are protected and accessible, and for which baseline data and logistical support are available -- key

factors attributable to Section 315 support. At several reserves, the availability of transportation, bunkrooms for overnight lodging, and laboratory facilities has made working at these sites cost effective for researchers.

Scientific research in the System has already contributed to coastal management in significant ways. Research conducted through the Apalachicola NERR in Florida, for instance, was instrumental in the establishment of an overall Apalachicola Bay management plan that covers all commercial fish and shellfish species taken from the Bay and all habitats represented in the Reserve. Reserve staff also applied information gathered from these research projects to help develop the most comprehensive land use management plan in Florida. Research at other sites has improved methods of eelgrass restoration and identified causes of tidal wetland loss -- both critical habitats for commercially and recreationally important species.

The reserves actively seek to provide tools and resources, as well as information, to coastal managers. Vegetation maps developed for the Rookery Bay, Florida NERR have been used by local coastal managers to develop a county coastal management plan. Other useful resources developed in the System include manuals for designing coastal monitoring programs, computer-based geographic information systems, and research libraries.

Reserve staff have been active in hosting professional meetings that draw together groups of scientists, managers, planners, and educators. The Elkhorn Slough NERR (California), for example, recently sponsored a National Coastal Wetlands Symposium, and will host the 1988 annual meeting of National Marine Educators Association.

Throughout the System, scientific research, estuarine education, and coastal management are integrally linked. Researchers are encouraged to discuss the practical implications of their work with coastal planners, and to participate in decision-making about coastal management; they also take time to

inform the public about their work. Similarly, in reserve education programs, students and their teachers conduct experiments and field observations to learn more about the estuaries and the scientific method, and then seek to apply what they learn to local coastal management issues.

THE IMPORTANCE OF FEDERAL SUPPORT FOR SECTION 315 GRANTS

Federal and state coastal managers are increasingly aware of the many subtle and profound linkages that exist between the actions they take and the health of our nation's estuarine ecosystems. Without sufficient understanding of the inner workings of our estuaries we risk having substantial and unwise expenditures of coastal management funds made by a host of Federal, state, and local agencies. We also run the very real risk of management actions that result in serious and long-term damage to our nation's estuaries.

The point is that we need this system of national estuarine research sites in order to gain productive, useful, relevant information about our nation's estuarine systems, credited with supplying vital resources for two-thirds of our commercially exploited fish species, as well as performing a host of other valuable functions. The National Estuarine Reserve Research System stands alone as the only national network of representative research sites through which research, education, and monitoring are coordinated to improve coastal management.

This national research system is only possible through adequate funding of Section 315 state grants. States alone cannot provide the resources to establish, develop, and operate national research sites, particularly with the very high costs of acquiring estuarine coastline. Minimal investment of Federal dollars provides the seeds for much larger returns now and over the long term.

RECOMMENDED APPROPRIATION

NERRA urges Congress to appropriate $3.4 million for Section 315 grants for FY88. This request for $541,000 over last year's pre-deficit reduction appropriation would enable the System to continue operation of mandated programs at essentially level funding, given two important factors.

The first is the addition of two new sites to the System in FY88, bringing the System total up to 18. Both the Waquoit Bay (Massachusetts) and Great Bay (New Hampshire) sites need assistance acquiring land and developing research, education, and interpretive facilities. These sites also become eligible for operations, research, and education grants as soon as they are designated. Furthermore, Maryland and Virginia have proposed several sites for a multiple-site reserve on the Chesapeake, and now require funds to assist with pre-designation requirements. Other states may wish to move forward with proposals for new sites in FY88.

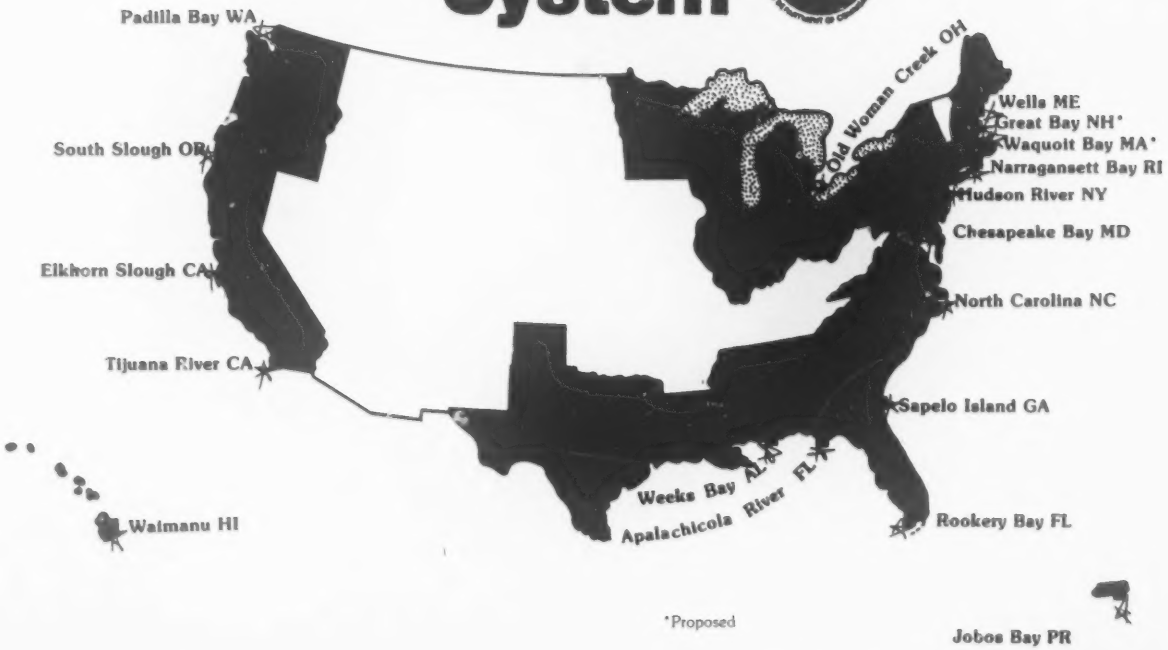
Secondly, additional funds are necessary to support scientific research, monitoring, and education in designated reserve sites that have now developed from an early land acquisition phase to a stage in which they are simultaneously completing land acquisition, expanding research and education progarms, and becoming highly visible public programs. Several reserves designated in the 1980s fall into this category. Large and growing constituencies actively seek programs, resources, and facilities related to estuarine research and education at these sites. They have reached critical junctures requiring additional Federal development funds to enable them to meet these rapidly growing public demands.

In sum, the states participating in the National Estuarine Reserve Research System have shown their willingness to forge a strong partnership in the development of a system of long-term, representative national research sites dedicated to improving

coastal management. NERRA respectfully urges this Subcommittee to take a leadership role in preserving this System by adopting our recommended level of funding for Section 315 grants.

Thank you.

National Estuarine Reserve Research System



*Proposed

The Geosat Committee, Inc.

March 18, 1988

The Honorable Ernest F. Hollings
Chairman, Appropriations Subcommittee
on Commerce, State, Justice, and the
Judiciary
UNITED STATES SENATE
U.S. Capitol Building
S146A
Washington, D.C. 20510

Dear Senator Hollings:

On behalf of The Geosat Committee, Inc., we wish to submit the attached written statement in support of continuity of the Landsat Program for your deliberations at the March 23, 1988 hearings on the Landsat program, the modernization of the Weather Service, and other issues regarding the NOAA 1989 budget. We also support the recently renegotiated contract between the Departments of Commerce, NOAA and EOSAT, its OMB approval, and urge its approval by your Appropriations Subcommittee.

If the U.S. wishes to remain competitive in the world market place, we believe that the continuation of Landsat, as well as other civil land and ocean satellite remote sensing programs, is in our country's best interest.

Respectfully,

Frederick B. Henderson III
President

FBHIII:lg
Enclosures
cc: Senator Warren Rudman
Congressman Robert Roe
Congressman Neal Smith
C. William Verity, COMMERCE
Curtis Mack II, NOAA
James C. Miller III, OMB
Donald P. Hodel, INTERIOR

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WRITTEN STATEMENT OF
DR. FREDERICK BRADLEY HENDERSON III
PRESIDENT, THE GEOSAT COMMITTEE, INC.
NORMAN, OKLAHOMA

Mr. Chairman and Members of the Subcommittee:

The Geosat Committee has supported the continued development of the Landsat Program and civil land/ocean satellite remote sensing in the United States since 1976. We have worked with NASA, NOAA, and other U.S. agencies to improve these U.S. capabilities in order that U.S. industry would have the proper data to explore for and develop energy, mineral, and renewable resources throughout the world. This global exploration and development is necessary to support and maintain a strong competitive U.S. economy in the world marketplace. Similarly, under the auspices of the U.S. policies of "Open Skies" and "Non-discriminatory Access to Data," we have worked with other countries developing similar satellite systems under international cooperation to assure access to their data.

The Geosat Committee is aware of your Subcommittee's concerns with respect to the competition within NOAA for limited budget funds. We understand NOAA is trying to continue the Landsat Program and, at the same time, maintain other NOAA programs and research in coastal zone management, fisheries, oceanography, and modernization of the Weather Service. Many companies and organizations within the Geosat Committee benefit from these NOAA programs and support their continuation. However, we would like to provide some arguments in support of Landsat and related civil land/ocean satellite remote sensing programs and supporting applications research. We believe these programs are of national interest on a par with the other NOAA programs competing for NOAA's funds as mentioned above.

We recognize that one of the problems in NOAA's support of the Landsat Program is that in the past NOAA has not had a generic charter for global land remote sensing. However, this responsibility was placed with NOAA and the Department of Commerce by Presidential Directive 54 of November 1979, and restated in PL 98-365, the Landsat Commercialization Act of 1984, and the President's Space Policy of February 11, 1988. NOAA's role and priorities are further complicated by the called for privatization and commercialization of Landsat. It's role is also complicated by the exclusion from commercialization of the meteorological satellites except by an act of Congress (PL 98-365). In any case, we believe that the intent of Congress, and of both Presidents since 1976, has been to provide for the continuity of civil land/ocean remote sensing satellite programs in the United States under the leadership of the Department of Commerce and NOAA.

The Geosat Committee wishes to provide the following arguments on behalf of continuity of the Landsat Program and civil land and ocean satellite remote sensing in the United States for your consideration during these hearings and any deliberations that may follow.

We believe that Landsat is truly a National Asset that provides U.S. Industry and Government with vital economic intelligence and information on global energy, mineral, and

renewable resources. We believe that this information is important to industry's competitiveness for global resources needed to maintain a strong industrial base at home and to stimulate industrial opportunities in the international marketplace. Continued development of the Landsat Program will support American jobs and maintain leadership in this U.S. technology in the United States. Thus, it will help to alleviate some of this country's present balance of trade deficits and minimize the undesirable transfer of U.S. technology and expertise outside the U.S. One result of the continued development of the Landsat Program will be the addition of new land and ocean (i.e., SeaWifs) sensors for use in DOC/NOAA operational programs to be provided by the private sector in accordance with the President's recent Space Policy. Completion of the DOC/NOAA-EOSAT agreement to develop Landsat 6 and lead to the development of a competitive commercial Landsat 7 is dependent upon finishing the long agreed to transfer payment of the government to accomplish this privatization. The Geosat Committee supports the recently renegotiated contract between the Department of Commerce and NOAA, and EOSAT, as approved by OMB, and urge its approval by your Appropriations Subcommittee.

Other countries recognize the importance of such national satellite sources of global resource intelligence. France's excellent SPOT Program will soon dominate the world remote sensing markets with the impending demise of Landsat 5. While SPOT data is sold commercially, the French Government has agreed to fund the satellites through the year 2000. Japan is building the best energy and mineral exploration satellite, JERS-1, for the early 1990's. There is concern that JERS data may not comply with the U.S. policy of non-discriminatory access to operational or non-research data. The JERS satellite is funded in part by Japan's Ministry of International Trade and Industry (MITI) to provide data to Japanese resource companies to make them more competitive in their quest for global resources. The U.S. energy, mineral, and renewable resource industries will be at a competitive disadvantage for global economic resource information in the 1990's, if these data are not shared on a basis of international reciprocity under the non-discriminatory access to data principle, and if the U.S. Government should allow the Landsat Program to fail.

In conclusion, the Geosat Committee believes the Landsat Program and its continued development will address and serve civilian, national security, and foreign interests of the United States. It will also serve U.S. economic interests by contributing to the further development of supplies of global energy, minerals, and renewable resources which are and will continue to be of critical importance to a strong U.S. economy. We ask the support of your Subcommittee for the Landsat 6 Program presently under consideration in these Hearings and in any deliberations that may lie ahead.

COMPETITIVE U.S. ECONOMY AND GLOBAL RESOURCE OBSERVATION SATELLITES

NATIONAL SECURITY: The national security of the United States is predicated on its maintaining a strong industrial economic base that is competitive in world markets. Information on and competitive access to global energy and mineral and non-renewable resources is vital to maintaining an internationally competitive industrial base. Civil land earth observation technology developed by the U.S. (LANDSAT) is expanding throughout the world with improving sensors on several national satellite systems (ERS, European Space Agency; IRS, India; JERS, Japan; RADARSAT, Canada; and SPOT, FRANCE). Information derived from these satellite data will provide those countries with significant and timely new knowledge about the distribution and status of world energy, mineral, and renewable resources needed to maintain their own industrial bases in competitive world markets and trade.

THREATS TO U.S. CAPABILITIES AND DIMINISHED U.S. INDUSTRY ACCESS TO GLOBAL RESOURCE REMOTE SENSING: While the U.S. Landsat 1-5 and SPOT 1 (France) have provided some of the required data (see attached), threats to continuing the Landsat program combined with other countries' national priorities may diminish or eliminate U.S. industry's access to this technology. These threats include:

1. Termination of the Landsat Program for Landsat 6 and 7 through the governments premature efforts to "commercialize Landsat" under the Landsat Act of 1984 and the 1985 contract by Eosat(Hughes/RCA) and NOAA (Department of Commerce) because:

   a) Landsat commercial market has not yet materialized;
   b) of budget cutting efforts by Congress and the Administration;
   c) Landsat transferred (1978-81) from NASA to NOAA who has no vested organic responsibilities in land observation and who's weather satellites are threatened by budget cuts and funds needed for Landsat; and
   d) absence of Cabinet-level charter to support U.S. industry access to global energy and mineral resources for the future by supporting needed satellite systems.

2. Possible restriction by Japanese of data from their state-of-the-art JERS geology resource satellite because JERS is supported in part by MITI to provide global resource information for the Japanese resource industry in the third world and elsewhere for their competitive advantage.

3. Continuation of earth observation development by NASA (EOS polar-orbiting platform program) for research only without direct applications spin-off to U.S. industry on behalf of a strong U.S. economy.

4. Unrealistic military and foreign policy restrictions on civil systems; e.g., government opposition to a follow-on ocean/land radar satellite to Seasat(1978), while Canada, Japan, and ESA are developing civil land and ocean radar satellite capabilities for 1989-1990.

WHAT MUST BE DONE:

1. The U.S. government must recognize that it is in its national interest that these data be available to the U.S. resource industries to prevent further erosion of the dwindling U.S. industrial base due to lessening of competitive access to global resources.

2. In line with the above, the U.S. government must:

   a) establish and implement policy that will continue to support the development of U.S. civil land/ocean observation systems that provide the minimum remote sensing data requirements (attached), whether such systems are commercially successful or not;

   b) persuade its allies and trading partners, such as Japan, who wish to participate in international space cooperation with the U.S. (i.e., Space Station, Polar-Orbiting-Platforms, etc) that they must share their operational remote sensing data in a non-discriminatory manner with mutual reciprocity of data as we have shared Landsat and other data with them;

   c) assure that NASA's earth observation research be supported in a manner that encourages its availability and applications spin-off to U.S. industry rather than expands the current gulf between NASA remote sensing research and applications; and

   d) assure the national security and foreign policy concerns in civil land/ocean remote sensing are better balanced with this country's civil need for such data to compete for global resources to maintain a strong U.S. industrial base.

A GLOBAL RESOURCE SATELLITE SYSTEM

An "ideal" satellite remote sensing system based on technology available now and in the 1990s (see chart) would include the following minimum capabilities as recommended by the Geosat Committee, Inc. and others since 1976:

1. 4 visible/near infrared bands (0.5-1.0 microns) for iron oxide minerals and vegetation (IRS, JERS, LANDSAT, and SPOT);

2. 4 shortwave infrared bands (1.0-2.5 microns) for clay, carbonate, and hydrated alteration and metamorphic minerals, and plant moisture (JERS, LANDSAT);

3. 4 thermal infrared bands for rock and soil silica mineralogy (LANDSAT proposed);

4. 3 radar bands (X-,C-,L-; multi-polarized) for elevation, surface texture, and soil/plant moisture (ERS, JERS, RADARSAT);

5. 1-2 downtrack or cross track stereo bands with B/H of 0.5-1.0 (IRS, JERS, LANDSAT, Stereo MOMS);

6. Pixel resolution in one or more bands of 10-20m resolution (IRS, JERS, LANDSAT, Stereo MOMS);

7. Above capabilities co-registerable where possible with 90-120km swath coverage (all); and

8. Adequate on-board tape recording and international direct ground receiving stations to acquire, process and distribute data globally on a non-discriminatory and timely basis.

GEOSAT REQUIREMENTS	LANDSAT 4,5 TM PRESENT	SPOT 1,2,3 PRESENT	JERS-1 FUNDED	ESA/ERS FUNDED	LANDSAT 6,7 PROPOSED	SPOT 4 PROPOSED
TIME	82-88	87-90	91	89-90	91-	91(?)
VNIR	●	●	●		●	●
SWIR	●		●		●	●
THERMAL IR					●	
10-20m RESOLUTION		●	●		●	●
STEREO		●	●		●	
RADAR			●	●		
OTHER					CWIFs	

Society of Exploration Geophysicists

President
L. C. (LEE) LAWYER
Chevron Corporation
P.O. Box 42832
Houston, Texas 77242-2832
(713) 596-2008

February 29, 1988

The Honorable C. William Verity
Secretary of Commerce
HCHB Room 5851
14th Street & Constitution Ave., N.W.
Washington, D.C. 20230

Dear Mr. Verity:

While it may be inappropriate for the Society of Exploration Geophysicists to take an official position regarding the continuity of the Landsat program, the Executive Committee has unanimously agreed to support the technical viability of such a program. Throughout the world, many of our 15,000 members are involved in energy and mineral exploration and development of resources needed to maintain a strong U.S. industrial base. These international geophysical and geological exploration efforts have been enhanced with resource information derived from satellite data.

We are concerned, however, with the recent delays and uncertainties over continuity of the Landsat program under the stalemated 1985 contract between DOC/NOAA and EOSAT to continue Landsat 4/5 and develop Landsat 6/7. We recognize the problems caused by the Challenger disaster and the government's current efforts to reduce the budget deficit under the Gramm-Rudman-Hollings Act. But we believe that Landsat technology is too important for U.S. competitiveness for global resources for the Landsat program to be terminated because of government's unwillingness to complete funding the Landsat commercialization effort through Landsat 7 as initiated by the U.S. government. Both France and Japan are developing national remote sensing programs specifically to develop global resource information for their national industrial well-being. Should the U.S. government and the Department of Commerce allow the Landsat program to fail, what will government do to assure open skies, non-discriminatory access to data from these non-U.S. programs in competition for global resources?

We believe that a continuing competitive U.S. civil land and ocean remote sensing satellite program serves the civilian, national security, and foreign policy interests of the U.S. government and its people. Furthermore, it serves U.S. economic interests by providing information to assist global exploration in a changing world and to further the development of supplies of global energy and mineral resources which are and will become of more critical importance to maintaining a strong U.S. industrial base and stimulating industrial opportunities in the international market place. We ask that you help us to see that the U.S. does not lose this important civil, economic, and technological capability to other countries during tough budget times and the turmoil of an election year.

Sincerely,

L. C. Lawyer

L. C. (Lee) Lawyer
President

American Association of Petroleum Geologists

An International Geological Organization

LAWRENCE W. FUNKHOUSER
President

PO Box 979
Tulsa, OK 74101
(918) 584 2555

October 16, 1987

Mr. S. Bruce Smart
Acting Secretary of Commerce
U. S. Department of Commerce
14th Street & Constitution Ave., N.W.
Washington, DC 20230

Dear Mr. Smart:

The Executive Committee of the American Association of Petroleum Geologists has voted unanimously to endorse a strong, continuing U. S. civil land and ocean satellite program. For many years now, our 40,000 members have utilized Landsat information in our efforts to develop petroleum and other energy mineral resources throughout this country and the world.

Not only does this program currently address and serve civilian, national security, and foreign interests of the U. S. government, it also serves U. S. economic interests by contributing to the further development of supplies of global energy and mineral resources which are and will continue to be of critical importance to a strong U. S. economy. We particularly support continuity of these programs, as they provide economic intelligence for national economic competitiveness for global energy and mineral resources development and serve as stimulation for U. S. industrial opportunities in the international marketplace.

The AAPG further believes that if the U. S. should allow the Landsat program to fail and if other countries now developing sophisticated geological land satellite remote sensing systems elect not to share their data on a non-discriminatory basis, as the U. S. does, then the U. S. energy and mineral industry will be at a global disadvantage for worldwide exploration. This would be detrimental to the U. S. international economic competitiveness and our long-term economic well-being.

Sincerely,

L.W. Funkhouser

Lawrence W. Funkhouser
President

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+ Elected Officer of Corporation
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* Executive Committee
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STATEMENT

Harold W. Williams

President

Industrial Policy Council

for the

International Trade Administration

The Industrial Policy Council is an organization devoted to promoting the competitiveness of U. S. industry. We have a specific interest in trade adjustment assistance for firms and industries as a useful tool in helping businesses that have been harmed by imports to deal more successfully with their overseas competitors. Trade adjustment assistance is not only a humane and reasonable way to help those who have been harmed by imports, but it is the best way to hold back the tide of protectionism. Isn't it better to help a business become more efficient than to preserve its inefficiency by imposing restrictions on its foreign competition?.

We have presented testimony before this subcommittee for five years previous to this. In each case we have emphasized the benefits that accrue to the country from helping to make our businesses more competitive. In the early years, we were one of the few voices that stressed the importance of becoming more competitive. Now, it is generally accepted that the major goal of American economic policy in the immediate future ought to be helping American businesses to become more competitive.

There is obviously a good deal more to this task than trade adjustment assistance. It is a modest program. Its aims are modest. Its cost is modest. But its results, when it has been managed properly have more than paid for its costs.

One of the features of the trade adjustment assistance program for firms and industries has been the funding of trade adjustment assistance centers, or "TAAC's" as they have come to be called. These TAAC's are not government agencies. They are independent non-profit organizations, some free-standing, others affiliated with universities or other non-profit institutions. They are supported by grants from the funds you appropriate for trade adjustment assistance.

The achievements of the TAAC's are well-supported by testimony presented to Congress in previous years, largely by businesses that have been helped to stave off foreign competition through TAAC assistance. The Office of Technology Assessment took a look at trade adjustment assistance last year and reported that many individual firms that have received technical assistance from the TAAC's have high praise for the program. For example, OTA reported that one experienced apparel manufacturer in Georgia gave the TAAC most of the credit for getting his company out of trouble, by

introducing him to better cost and quality control methods and suggesting improvements in the cutting room.

OTA reported that no one has conducted a systematic cost-benefit analysis of the TAAC program, but that evidence from a few firms suggests that even a few successes a year can more than repay the costs of the program in higher income and property tax receipts.

OTA emphasized that the TAAC program "is the major Federal program (with minor exceptions, the only one) that provides sustained, intensive technical assistance (including advice on finance, marketing, engineering design, and shop floor operations) to small and medium-sized manufacturing firms." Its report goes on to suggest that experience with this modest program may shed some light on how a more broadly available industrial extension service could contribute to the competitiveness of American industry.

In my testimony last year, I was sharply critical of the Department of Commerce's management of the TAAC program. OTA buttressed this assessment with its own report that the Commerce Department had virtually paralyzed the program. Since then, a new Deputy Assistant Secretary for Trade Adjustment Assistance has been appointed and fiscal year 1987 funds were released. As this statement is being prepared, however, none of the fiscal year 1988 funds have been released for the program, once again raising questions as to whether the Administration intends to sabotage the program again.

It is also unfortunate that the International Trade Administration, instead of seeing trade adjustment assistance as an important element of its mission to foster U. S. trade, has seen the program as a way to get funds not otherwise given to it by Congress for other programs. Every year, attempts are made by other offices in ITA to get funds reprogrammed away from trade adjustment assistance. ITA is certainly not the best home for trade adjustment assistance, but given the alternatives, it is probably as good as any that might be found in this Administration. Nevertheless, this subcommittee needs to be alert to raids on TAA funds by ITA.

In previous years, the high dollar made it difficult for trade adjustment assistance to accomplish its mission of helping import-impacted firms to survive. There were many cases where no matter how much more productive a firm became, it simply couldn't compete with foreign goods. This is no longer the case. The lower dollar has made it possible for efficient firms to be competitive once again. Now, the task is to help more firms become efficient. The TAAC's are ideally suited to accomplish this mission. If we would only give them the resources and let them operate for a year or two free from harassment by the Commerce Department, I am confident we will see gratifying results.

In fiscal year 1982, Congress appropriated some $55 million for trade adjustment assistance for firms and industries. Last year, less than $16 million was appropriated. It is certainly to be hoped that this program will not be blamed for America's budget deficit. In fact, if the suggestion in the Office of Technology Assessment report is accurate,

cutting TAAC funds may well be counter-productive for the budget deficit, since it means that fewer firms will become more competitive, more firms will suspend operations, and tax collections will be reduced appropriately.

For all these reasons; to keep America competitive, to reduce the budget deficit by preserving the tax-paying power of firms that have been hurt by imports, to show American businessmen and women that the Federal Government will help when they have been hurt by foreign competition, to keep intact a program that can show how to improve the competitiveness of all American industry, we ask that you provide funds for trade adjustment assistance for firms and industries in fiscal year 1989 at this year's level of $15.79 million, and that you disapprove any Department of Commerce move to reprogram those funds in a way which will reduce the amount available for trade adjustment assistance in fiscal year 1988 below the $15.79 million approved by Congress.

THE ATLANTIC EXCHANGE PROGRAM

Testimony presented by Robert J. Williams,
President, on April 12, 1988

Mr. Chairman. A few years ago, my former neighbor, Congressman Jerry Lewis, and I had a conversation over our back fence just a few blocks from Capitol Hill. I said that, as a direct result of my experiences as a journalist covering the U.S. for the second largest Dutch daily newspaper, I was being confronted daily with my own ignorance regarding The Netherlands and Western Europe. This conversation, in part, encouraged me to explore establishing a truly independent international exchange Program linking the United States and The Netherlands. Today, this Program, the Atlantic Exchange, is being hailed as an outstanding success by important political and business leaders in both countries.

The Atlantic Exchange Program is unique. It takes mid-career Dutch and American business executives, political leaders and journalists individually to either the United States or The Netherlands. Each participant has a tailor-made program focusing on his own informational objectives. Currently, the Program is being expanded to include Belgium, the European Community and NATO.

The Program is not designed to educate but rather to de-educate. By providing each participant with a short but dramatic opportunity to begin to understand the depth and breath of his own ignorance about the other continent, it tends to destroy dangerous misconceptions in the mind of the participant.

Each participant is provided with his own program as well as a limited travel grant which fluctuates with his ability to pay some, or all, of his travel expenses.

The Program has the full support of both the United States and Dutch governments. In fact, the current Prime Minister of The Netherlands, Ruud Lubbers, has spoken publicly on two occasions to warmly praise this Program.

For example, the Prime Minister was the keynote Speaker during the 1985 Program Annual Meeting in Rotterdam. He said, "the Atlantic Exchange Program has grown at a phenomenal rate. In a short period of time an idea which, in itself, was a simple one has come to fruitition in two different countries....
This is not just the beginning of something: looking at the assembled company here, it is as if I were addressing a long established and esteemed organization."

President Reagan has also endorsed the Program, writing on November 2, 1983, " I am pleased to learn of your efforts to establish an exchange program between the United States and Holland. Americans will benefit from the experience of living

and working abroad. In addition, our citizens have always been proud to share our resources with our neighbors in The Netherlands."

Former President Ford has also publicly endorsed the Program. On May 22, 1985 in a New York City address to a number of senior executives, he said, "corporations should not consider financial support for this Program as a donation-- it is an investment in international education."

There is a strong need for increasing high-level contacts between the U.S. and Western Europe. The EC's plan to become one market by 1992 has recently gained new thrust as the central bank chiefs have begun exploring the phenomenal proposal to create just one European central bank and currency. Further, many analysts believe Gorbachev's next move will be a major public relations campaign aimed at Western Europe. Political and economic ties between the U.S. and Western Europe must be stregthened in order to weather the turbulent changes ahead.

One of the unique aspects of the Atlantic Exchange Program is the fact that it operates non-stop to and from the U.S. This allows the Program to build an increasingly larger and stronger international network of past participants who become permanent supporters, on both sides of the Atlantic.

For example, the current leader of the Dutch Labor Party, Wim Kok, following his participation in the Program, has been more than willing to regularly meet with visiting American political and business participants. In the United States, partially as a result of the on-going participation of a number of Congressional Hill Staffers, a number of Members of Congress, including the Democratic and Republican leaders in both Houses, meet frequently with visiting Dutch business and government participants.

Clearly, in the opinion of both our supporters and past participants, the Atlantic Exchange Program is working daily to strengthen the political, social, economic and cultural ties between Western Europe and the United States.

Recently-retired Democratic Congressman Berkley Bedell in 1985, said, "the trip was extremely well organized, and gave me a wonderful opportunity to meet with business and government leaders in The Netherlands, so that we might have a personal exchange of views. I believe exchanges such as this go a long way toward helping us understand one another, and contribute both toward better understanding between countries and improved chances of maintaining a peaceful world."

Senator Bill Roth, who recently participated in the Program, wrote, "The Atlantic Exchange Program is extremely helpful in promoting understanding and good relations between our two countries. I found the Program to be unique and thoughtfully planned. The Program provided me with an unusually valuable opportunity to meet with a number of important business and governmental leaders in The Netherlands, thus giving me an insight that will prove immensely valuable in the future."

The Executive Board of the Program consists of four of the most respected Dutch national leaders:

- Wim Duisenberg, President of De Nederlandsche Bank, the Dutch central bank, who serves as Chairman of this Committee;

- Andries van Agt, former Prime Minister of The Netherlands and currently Tokyo Ambassador of the European Community;

- Cor van der Klugt, President of Philips Industries, one of the largest multinational electronic companies in the world;

- Kees de Bruijn, former Editor-in-Chief of Sijthoff Press, one of the major Dutch newspaper groups.

The Advisory Board of the Program consists of a number of important business and government leaders. Among the members are Speaker Jim Wright, Majority Leader Thomas Foley, Senator Claiborne Pell, Howard Simons, Curator of the Nieman Program for Journalism at Harvard University and former Managing Editor of The Washington Post, and Republican Leader Robert Michel. In The Netherlands, members include the Parliamentary leaders of the three largest political parties: Wim Kok (Labor Party); Joris Voorhoeve (Liberal Party); and Bert de Vries (Christian Democratic Appeal).

Business leaders include Gerrit Wagner, retired Chairman of Royal Dutch Shell, Herman Wijffels, Chairman of the Executive Board of Rabobank, one of the four largest Dutch banks, Hans van Liemt, Chairman of DSM, one of the world's largest chemical companies and Albert Heijn, President of one of Europe's largest multinational retail food companies.

The Advisory Board members also include the Mayors of the four largest cities in The Netherlands: Amsterdam, Rotterdam, The Hague and Utrecht. European Community and Belgian officials are also directly involved in Program operations.

Currently, the Program is financially supported by 81 organizations which together provide about $630,500 yearly. 79% of the total funding is provided by Dutch and American corporations and the balance is provided jointly by the United States Information Agency and units of The Netherlands Government. (The United States Information Agency funds are only used for Dutch participants.)

The Program, which is completing its fourth year of full operation, is continuing, without interuption, to operate individual exchanges to and from the United States. In addition, over the last two years, the Program has begun to operate a number of small group programs. While the individual exchanges are normally for a period of three to four weeks, the group exchanges usually are for only two weeks duration. For example, this year we will take the Presidents of the six largest Dutch Universities to the United States to explore, through meetings with their American University counterparts, a number of managerial and financial issues.

Currently, we are organizing a program for police chiefs of major Dutch cities enabling them to meet with their American law enforcement counterparts.

We are also organizing a two-week visit to the United States for senior civil servants who are, in fact, the chiefs of staff

to the governors of five of the twelve Dutch provinces. They will meet with their counterparts in four American states to explore a number of government managerial issues.

Each year, we organize a one-week Washington visit of ten Members of the Dutch Parliament representing all four major political parties. We are very pleased that the U.S.I.A. has donated sufficient funds to cover the air transportation for these visiting Parliamentarians on two occasions. We also organize a yearly visit of a large group of senior executives of major Dutch corporations currently funding the Atlantic Exchange. These executives pay their own travel expenses but we organize their program.

This year, the group will consist of some 30 senior executives who will visit Washington from November 5 until November 12 to discuss the dangers of protectionism as well as the pros and cons of foreign investment in the U.S. Over 21% of total foreign investment in the U.S. is made by Dutch corporations, second only to that made by British companies.

The Program operates exchanges which focus on three major dimensions of each nation; political, economic and cultural.

Members of the Dutch Parliament, as well as Members of Congress and their administrative assistants, have informed us that our Program provided them with a unique opportunity to exchange views on a number of important issues.

For example, several years ago, the Dutch were in the midst of a major political debate over whether or not to accept American cruise missiles. The Atlantic Exchange Program organized a special program which allowed two opposing members of Parliament to appear at a number of American Universities to debate the cruise missiles question. Maarten van Traa of the Labor Party spoke out against accepting of the cruise missiles and Joost van Iersel of the Christian Democratic Appeal, the dominant party in the ruling two-party coalition, argued in favor of accepting the missiles. Participating as moderator of this floating national debate was Andre Spoor, Editor of the most important weekly magazine.

We recently arranged for Republican Senator Roth to meet with a number of leading political leaders in The Netherlands including the Prime Minister and the Minister of Defense to discuss issues relating to the future of NATO. Participants regularly meet in Brussels with officials of the European Community and NATO.

From an economic standpoint, the Program is continuing to play an important international role. For example, as a direct result of the participation of Herman Wijffels, Chief Executive Officer of Rabobank, one of the largest European agricultural banks, Rabobank is now participating more significantly in American agricultural banking.

We are now organizing a number of future group visits designed to allow American business executives to explore using The Netherlands as their base to export their goods and services throughout Western Europe.

In fact, the Director of the Washington Office of McKinsey &

Co., Terry Williams, believes that one of the most important future functions of the Atlantic Exchange will be to encourage more medium-size American companies to increase their exports to Western Europe.

Culturally, the Atlantic Exchange is working today with eight American Artist-in-Residence programs to bring American artists individually to The Netherlands for a six-week visit designed to allow them to explore the rich artistic heritage of Holland. Conversely, we are also taking Dutch artists to the U.S. to allow them to participate individually as Artists-in-Residence in eight American states.

The Atlantic Exchange Program is supported by all major American and Dutch political parties and also enjoys the full support of the Dutch and American governments. It is working daily to increase international understanding between government, political and business leaders in both countries. It is daily strengthening political, social, economic and cultural relationships between the two countries in a very pragmatic way.

The Program receives the majority of its support from Dutch and American corporations. However, governmental support, while representing 21% of the total budget, is of unusual importance for it evidences the political determination of both governments to perpetuate this practical initiative which is effectively uniting both countries.

In The Netherlands, many emergent leaders are suspicious of non-government funding. Thus, the Atlantic Exchange Program needs the continued financial support of the United States Information Agency for more than purely financial reasons.

Currently, total Dutch government support, including the city of Rotterdam is about $120,0000. The Atlantic Exchange Program is seeking financial support from the U.S.I.A. for fiscal year 1989 in the amount of $150,000. These funds will be used to underwrite the traveling fellowship costs of leading Dutch and European Community officials to the U.S.

This Program, one which began as a result of an incidental back fence conversation here in Washington a few years ago, has become a highly-respected, solidly-supported international device working daily to strengthen, in a clearly demonstrable way, the political, economic and cultural relationships between the United States and The Netherlands.

We very much appreciate the important support which the United States Information Agency has provided the Program in the past. We believe that the Program merits, not only the continued, but the increased financial support of the United States Information Agency.

Thank you.

STATEMENT OF

REV. HAROLD BRADLEY, S.J.

SPECIAL ASSISTANT TO THE PRESIDENT OF GEORGETOWN UNIVERSITY

The International Student Exchange Program (ISEP) is a membership organization of 96 American and 98 foreign institutions of higher education in 34 countries. These institutions form a worldwide network to conduct fully reciprocal university exchanges at both the undergraduate and graduate level. Since 1979, ISEP has facilitated the exchange of over 3,000 students, half from the United States and half from abroad. For the 1988-89 academic year, approximately 850 students will be exchanged.

ISEP is a unique program with documented cost-sharing elements. Program costs are paid by participants themselves or by their home institutions in amounts equivalent to costs of tuition, room and board normally paid to the home institution. Participants receive equivalent benefits when they take up an academic exchange placement at their host institution. These costs range from $5,000 up to $18,000 depending on normal fees at their home institution. In addition, participants pay their own transportation, personal expenses and health insurance. Considerable cost-sharing is done by the member institutions as well, including the provision of staff, office space and supplies, and other on-campus administrative support. In addition, foreign governments have increased their financial support for in-country administrative and program costs, most notably in France, Italy and the Netherlands.

Public institutions in 33 states comprise two-thirds of the U.S. ISEP membership. This wide geographic range ensures broad participation in international exchanges by many state colleges and universities. By paying in-state tuition and fees, U.S. students may undertake a period of study abroad that they might otherwise be unable to afford. U.S. ISEP participants are among the top students at their home institutions, exhibiting an average GPA above a 3.00 and active participation in extra-curricular and community activities. They are carefully selected and nominated for ISEP exchanges and consistently represent the outstanding student leaders on their home campuses.

U.S. ISEP students go beyond the traditional study abroad opportunities offered by most other programs. Over 30% of U.S. ISEP participants study in non-traditional disciplines and at unusual sites, including several universities in developing countries in Africa, Asia and Latin America. Due to the fact that most ISEP students matriculate directly at the host campus, they have a strong working knowledge of a foreign language and are immersed in that language as they pursue academic programs in their respective disciplines. Others are working to improve their proficiency in one of several languages including Dutch, French, German, Chinese, Italian, Korean, Portuguese, Russian, Spanish and Thai. At some locations ISEP students will also study uncommon languages such as Swahili, Pilipino, Finnish, Hungarian, and Ewe.

ISEP participants from outside the United States are also carefully screened and selected for nomination to the program. Over 50% study at the graduate level and often earn graduate degrees before returning to their home countries to continue their studies or to launch into their careers. Most member institutions in developing countries use ISEP as part of their staff development programs by sending younger faculty and staff to the United States for graduate level training and research. These individuals return to teaching and administrative positions at their home institutions thus enhancing the professional qualifications of the staff. These scholars are often selected to receive Fulbright travel grants to supplement ISEP benefits or where grants are not available, they use ISEP as an alternative program for advanced training and research. ISEP participants from outside the United States represent a wide range of disciplines, including fine arts, economics, library science, business, music, history, languages and linguistics, political science and international relations, engineering and other technical fields.

The U.S. Information Agency under authority of the Fulbright-Hays Act of 1961 has provided partial funding for the administration of the program. For the period July 1987 to June 1988 the USIA contribution was $365,023; this figure represents 57% of the overall administrative costs. USIA has advised that their contribution should not exceed 50% of ISEP's overall administrative costs and have levied a ceiling of $320,000 for the period July 1988 to June 1989. This means that ISEP's administrative budget could not increase in spite of the fact that the number of nominees and actual exchanges is expected to increase by at least 10%. A renewal grant of approximately $396,000 is necessary for the continuation of this program; this contribution would represent 50% of ISEP's projected budget for the next fiscal year. Funding at this level also represents a continued decrease in the per student cost from $544 in 1986-87 to approximately $465 for the next fiscal year. Support at this level would ensure expansion and growth in a program that serves the national need for increasing international awareness and expertise and contributes to the educational and cultural exchange goals of the United States.

National Association of Latino Elected and Appointed Officials

BY HARRY PACHON, PH.D, EXECUTIVE DIRECTOR
NATIONAL ASSOCIATION OF LATINO ELECTED
AND APPOINTED OFFICIALS (NALEO)
&
KENAN PROFESSOR OF POLITICS, PITZER COLLEGE

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to submit testimony before this panel on the U.S. Immigration and Naturalization Service (INS) and its fiscal year 1989 appropriations.

The National Association of Latino Elected and Appointed Officials (NALEO) represents the issues and concerns of this nation's more than 3,300 Hispanic officials and their supporters. One of NALEO's chief, ongoing programs has been on U.S. citizenship and the foreign-born Latino community.

Today, one-third of adult Latino legal immigrants cannot vote or participate in many of the basic activities of democracy because they are not U.S. citizens. Key government jobs and certain private positions are out of the reach of this community because they are not U.S. citizens. For many immigrants, the key to their political and economic advancement is tied to obtaining U.S. citizenship.

Since the INS does not promote naturalization, NALEO undertook a massive national campaign that seeks to inform the legal resident community of the benefits and privileges of obtaining U.S. citizenship. Now in its fourth year, NALEO has charted many successes.

Through public service announcements and our toll-free hotlines, NALEO has been able to provide the immigrant community with reliable information and encouragement. To date, NALEO's

national hotline has received more than 75,000 calls for information and assistance.

In addition, NALEO has sponsored regional U.S. citizenship workshops that have brought elected officials, INS representatives and community-based service organizations to discuss the naturalization process and ways to enhance cooperation. All participants have praised these workshops.

I raise these points not to tout NALEO's work, rather I use it to illustrate the demand -- both from the government and community-based organizations -- that exists for such outreach. Unfortunately, the INS does none of this important, necessary work.

In contrast, the government of Canada actively promotes naturalization. It also works with community and immigrant groups, welcomes offers to discuss naturalization and plays an important role in helping immigrants make the transition to Canadian citizenship.

The U.S. INS should be given the resources and direction to be a naturalization activist rather than continue in its passive role. It is to the betterment of the entire nation that legal immigrants be told of the benefits and requirements of U.S. citizenship. It should be the INS that plays that key role.

Outreach

In addition to elevating naturalization's importance, community-based and national organizations with experience in providing naturalization assistance should be considered for resources.

Many organizations have undertaken innovative programs to help the immigrant community make the meaningful transition from legal residence to U.S. citizenship. Some groups have made efforts to target immigrant groups with low levels of naturalization. It is important that these groups be given the needed resources to help promote naturalization, as well as

provide the legal resident community with the assistance to meet the goal of naturalization.

NALEO suggests that the federal government make available annually $1 million in grants that could be distributed to organizations that have experience in naturalization promotion, outreach and assistance. Particular attention and consideration should be given to organizations that work with ethnic and national original groups with low levels of naturalization.

Non-files Report

At the request of Senator Dale Bumpers, the INS conducted a study on the people whose applications are classified as "returns or non-files" by the INS. These classifications represent administrative denials by the INS and represent as many as 25 percent of all applications for naturalization. The INS report, titled "Report of Nonfiles, Returns and Other Unadjudicated Naturalization Applications" provides some insight -- and raises questions -- on the citizenship process.

I would like to raise a few points about the report's content.

First, some INS offices administratively reject far high percentages of applicants than others. Where the national average for returns and non-files in the period and office studied is 16 percent, several offices report rejection rates of 50 percent greater than the national average. Atlanta (26.5 percent), Newark (27 percent) and Miami (27.2 percent) are among this group.

As this subcommittee is aware, the INS is a highly decentralized agency that grants broad discretionary powers to its examiners. In the first analysis of the naturalization program, The Long Grey Welcome highlighted this as a problem. This data further adds to the potential negative impact of this decentralization.

Second, the INS written report examines the number of naturalization applicants who are initially rejected (non-files

or returns) but reapply within a 10 month to 12 month period. Nationally, only 37 percent of rejected applicants reapplied within this time period.

If the results of this study can be applied to the entire pool of fiscal year 1987 naturalization applicants, then almost 75,000 immigrants who have made an effort to become U.S. citizens have been lost. Some type of outreach is needed to assure that these people return to the INS to try to complete the naturalization process.

Finally, the level of re-applications varies dramatically from INS office to office. As mentioned above, the national average for re-application is 37 percent. Several offices had extremely low rates of re-application. Boston (5.4 percent), Los Angeles (13.7 percent), New Orleans (4.3 percent) and Philadelphia (14.9 percent) are on the low end of the re-application list.

It would be worthwhile to examine why these offices have such low rates of re-application, and what factors, if any, may be behind these numbers.

Backlogs

NALEO has been working to document the average processing time for naturalization applications at key INS offices throughout the country. In this survey of INS district directors, NALEO asked how much time elapsed between the time an application was filed and the person was contacted by the INS. In addition, NALEO queried about the time between INS approval and the court date for the swearing in ceremony.

The processing time varied from office-to-office, yet a disturbing trend was discovered: backlogs. In Newark, N.J., for example, a naturalization applicant has to wait an average of 14 months before being interviewed. If the applicant passes, there is a five month wait before the court date, bringing the total

naturalization time to 19 months.

There are application backlogs elsewhere, such as nine months in Miami, 6 months to 8 months in Houston and Dallas and 8 months to 9 months in Philadelphia. As you know, this could be a discouragement for legal immigrants who desire U.S. citizenship.

Legalization's Impacts

While the backlogs are not new, one reason for increasing the waits is the Immigration Reform and Control of 1986, which ushered in the one-year Legalization program. This program created new administrative and staffing burdens for the INS.

NALEO has received reports that the Legalization program has been attracting the experienced naturalization staff members, many of whom are seeking better paying position in that program. We would ask the subcommittee to ask the INS to provide it with information relating to the reports of a staff drain on the naturalization program. Since naturalization is an important, ongoing program, it is imperative that it not be left in jeopardy because of staffing problems.

Staff Issues

Many of today's immigrants are entering the United States through the Southwest. INS data for 1986 indicates many of these new immigrants are settling in such cities as San Diego, Calif., and Los Angeles.

These migration patterns place new demands on INS office personnel. Some offices have fairly large staffs, yet the immigrant community they serve has been shrinking. Meanwhile, other offices may be facing increased demands without a corresponding increase of resources.

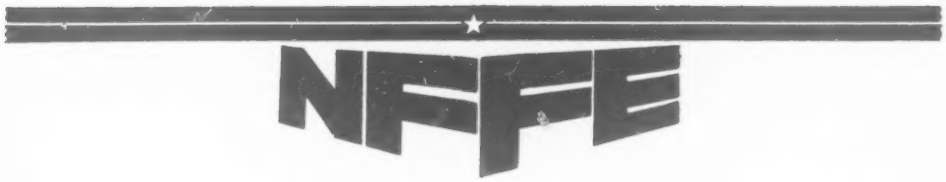
Based on the INS data, as well as projections for the future, the agency should assess its current and future staffing patterns and how to best meet the challenges it faces.

Conclusion

NALEO is eager to work with this subcommittee, the INS and

others on the issue of naturalization. Indeed, NALEO and community groups have developed warm, non-adversarial relations with some INS district offices.

Before district offices can fully have an impact on naturalization, promotion and advocacy on its behalf must be a national policy. As you know, this nation prides itself on it immigrant past. It should not, however, cnly be in the past.



STATEMENT BY

THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES

ON

THE MINORITY BUSINESS DEVELOPMENT AGENCY,
THE VOICE OF AMERICA AND THE
NATIONAL TECHNICAL INFORMATION SERVICE

Mr. Chairman and Subcommittee Members:

On behalf of the National Federation of Federal Employees, which represents a substantial number of employees in many agencies falling under this Subcommittee's jurisdiction, I appreciate the opportunity to present our concerns about the funding for these agencies. Our testimony will focus on three of these agencies: the Minority Business Development Agency, the Voice of America and the National Technical Information Service.

The Minority Business Development Agency was created in 1969 to assist minority firms in such areas as identifying export markets, identifying franchise opportunities, establishing innovative products or services in the market place, acquiring control of existing companies and educating minority youth about career opportunities in business ownership and the principles of entrepreneurship. Since 1969, MBDA has assisted 13,000 minority firms annually, an impressive record for an agency with only 240

employees spread out between the Washington, D.C. headquarters and six regional offices.

The Administration has once again proposed that MBDA be transferred to the Small Business Administration, a ploy that Congress has seen fit to block several times before. Two bills have been introduced this year, S. 1848 and H.R. 1769, which would create the Minority Business Development Administration within the Department of Commerce. Your committee, Mr. Chairman, recently held hearings on S. 1848 where many witnesses stressed the distinctly non-duplicative responsibilities of MBDA and SBA. The Administration's proposal would be disruptive to the successful administration of MBDA's programs, remove the agency out of a cabinet level department and place it within an agency whose statutory mandate limits it to businesses of a certain size. It is inconceivable that minority firms would be better served by the SBA, which in the last 13 years has served fewer minority businesses than MBDA helps annually.

I would urge the Subcommittee to continue to fund the MBDA as an agency of the Commerce Department and resist the Administration's proposals to place MBDA under the Small Business Administration.

We would further urge the Subcommittee to ensure the continuation of the important mission performed by the Voice of America. That mission, to broadcast accurate and reliable information in 42 languages to citizens of countries with state-run propaganda bureaus is in jeopardy because of questionable budgetary decisions at the agency. VOA has embarked on an extensive and expensive modernization program with a seemingly insatiable budgetary appetite. The agency has begun to make financial decisions for the sake of the modernization program that threaten the ability of the VOA to continue the kind of programming needed to fulfill its mission. We would ask the Subcommittee to ensure that the VOA continues to broadcast America's message to the rest

of the world without needless sacrifices and reductions for the sake of a problematic modernization program.

Finally, we oppose the privatization of the National Technical Information Service under the proposed FED CO-OP for three basic reasons: FED CO-OP does not provide for a complete cost comparison as does OMB's Circular A-76 program, but simply privatizes for the sake of privatization. Second, the Administration has not introduced legislation to implement FED CO-OP, which prevents a full hearing from all affected parties before the program is instituted. Third, FED CO-OP makes no provisions for fair wages and benefits for the workers, and only protects their employment for six months after the takeover.

The Administration has been quite open about giving private contractors a large proportion of the Federal budget and has gone to great lengths to encourage contracting out. Unfortunately, when a private contractor is able to perform a function less expensively, it is usually because he has lowered wages and benefits of the workers in order to compensate the shareholders of the corporations. Allowing employees to participate in an Employee Stock Ownership Plan often means that their assets are tied up in a thinly capitalized company which will not retain a high stock valuation over the life of its contract with the Government. The only company "asset" is the Government contract and this asset declines in value significantly as the contract expiration approaches.

If NTIS is contracted out under the FED CO-OP program, Federal employees will be forced to give up the security of a career civil service position for the uncertainty of stock options. As the events of last October demonstrated, stock values are volatile, and given the relatively modest salaries of most Federal employees, that volatility will have a greater effect on

their income than many Wall Street investors. We would urge the Subcommittee to resist the contracting out of the National Technical Information Service.

Thank you for allowing me to submit our views on the futures of the Minority Business Development Agency, the Voice of America and the National Technical Information Service.

TESTIMONY OF THE

NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

This statement is submitted for the record of the Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies of the Senate Committee on Appropriations on behalf of the National Association of Regulatory Utility Commissioners.

The NARUC is a quasi-governmental, nonprofit organization founded in 1889. Within our membership are the governmental agencies of the fifty States, the District of Columbia, Puerto Rico and the Virgin Islands which are engaged in the regulation of utilities and carriers. Our chief objective is to serve the consumer interest by seeking to improve the quality and effectiveness of government regulation in America.

Introduction

The Association appreciates this opportunity to request your support for funding to defray the travel expenses of the State commissioners and supporting staff of the two Federal Communications Commission Federal-State Joint Boards (CC Docket Nos. 78-72 and 80-286 and CC Docket No. 83-1376) which will be meeting during the 1989 fiscal year. (The Joint Board in CC Docket No. 85-124 is scheduled to complete its work before the end of FY88, but may require additional funding if its work is delayed.)

We would like to ensure that the Joint Boards, which are composed of three FCC Commissioners and four State Commissioners nominated by the NARUC and appointed by the FCC, remain effective bodies able to assist the FCC in implementing and monitoring the many changes currently taking place in telecommunications regulation. Over the years, this process has proven of immeasurable benefit to consumers and the nation as a whole.

FCC Federal-State Joint Boards have led to more reasoned decisionmaking and the incorporation of a much broader spectrum of legal and regulatory viewpoints. So many of the changes that are contemplated and are taking place in telecommunications have significant effects in both Federal and State regulatory jurisdictions. On policy of joint concern, Joint Boards have provided an eminently more efficient and congenial alternative to constant appeals by State public service commissions of FCC decisions. Indeed, the travel expenses of Joint Board members and staff probably pay for themselves in saved Federal court time and costs.

It is interesting to note that a recent Congressional Research Service study revealed that of the 350 FCC Orders to be challenged between 1986 and 1988, 80 of the decisions, or roughly 23 percent, were reversed or remanded by the U.S. Court of Appeals. While most orders from the Joint Boards are challenged in the Court of Appeals, not one Commission decision fashioned through the Joint Board process has ever been reversed. This speaks to the nature of Joint Board decisions which tend to incorporate many views rather than the ideology of an FCC majority.

Joint Boards will continue to play an active role in future telecommunications policy decisions. Since the issues assigned to the Boards are of national scope, their efforts require a significant amount of travel by the State members and their staff to Washington, D.C. and by all Joint Board members and their staff to other parts of the country.

The Main Joint Board

The main joint board (CC Docket Nos. 78-72 and 80-286) which considers jurisdictional separations matters will continue to look at some of the most politically sensitive issues in telecommunications in FY89. The second and third increases in the subscriber line charge are scheduled for December, 1988 and April, 1989. If the debate over the first increase in the SLC is any indication, the Joint Board may require extensive meetings to reach a consensus position on whether the final two should be implemented.

The influence of the States in achieving a compromise alternatives to the FCC's subscriber line charge plans is perhaps the most telling example of the Joint Board's immeasurable contribution to consumers and the nation as a whole in developing national telecommunications policy.

The fixed (NTS) costs of the local exchange assigned to the interstate jurisdiction were once recovered through long distance toll rates. However, in December 1982, the FCC established a uniform subscriber line charge (SLC) to recover a major portion of NTS costs through local phone bills. The proposal called for a $2.00 per month charge for residential customers in 1984 increasing to $3.00 in 1985 and $4.00 in 1986. State regulators were strongly opposed to the FCC subscriber line plan on grounds that it threatened affordable telephone service.

After months of careful examination and negotiation, the Joint Board recommended that the FCC implement only a $1.00 monthly subscriber line charge for residential customers in June 1985, increased to $2.00 per month in June 1986.

Last year the Board revisited NTS cost allocation issues. Once again, while the States generally favored the less regressive per-minute charge by the local exchange company to the interexchange carrier (which is subsequently reflected in long distance rates), the industry and the FCC wanted greater NTS cost recovery through the fixed monthly subscriber line charge on all

local phone bills (regardless of whether long distance services are used).

The telephone exchange industry, with the full support of the FCC, proposed to further raise the subscriber line charge from $2 to $3 in the summer of 1987, $4 in January of 1988, and eventually to the level high enough for full NTS cost recovery (which has been estimated at approximately $8 per month on a national average).

During the Joint Board's negotiations, the Executive Committee of the NARUC adopted a resolution opposing an increase in the charge until after full review of the effects of one full year's experience at the $2 level imposed on June 1, 1986.

After lengthy and highly publicized negotiations between the Federal and State commissioners on the Joint Board, recommendations were issued on March 12, 1987. While not incorporating the exact provisions of the NARUC resolution, the Board's recommendations were dramatically different from the FCC and industry proposals. Not only were subscriber line charge increases spread over a longer period of time, but the Board agreed to forever cap the charge at $3.50, less than half the $8.00 sought by the industry.

In the NARUC's view, this compromise between the States and the FCC is a prime example of the Joint Board process at its best.

The compromise should result in a 15 percent reduction in long distance rates over the next six years while not endangering universal service by pricing low-income consumers off the local network. To ensure these goals are met, the FCC Order, as a direct result of State advocacy, requires the Board to monitor and report to Congress and the NARUC the effects of the subscriber line charge increases on subscribership. Adverse effects would require corrective action and could result in a roll back of the charge. The compromise also included the creation of the popular Link Up America program which pays half

of qualifying customers' telephone service installation charges up to $30 and reimburses telephone companies for any interets costs associated with deferred payment schedules for service installation. Currently 27 States and the District of Columbia are providing Link Up assistance.

In other areas, the main Joint Board, in 1984, was charged with resolving many issues relating to the divestiture of AT&T and played a critical role in heading off a confrontation between the States and FCC over the separations treatment of equal access and network reconfiguration costs. In 1985, the Joint Board adopted the Lifeline program under which the FCC matches State assistance to low-income households up to the amount of the Federal subscriber line charge. Similar cooperation is expected to resolve the remaining complex areas that the Joint Board has been ordered to examine.

These areas include evaluating the results of the monitoring reports on the impact of the subscriber line charge to determine if any change in the current schedule of SLC increases is necessary; looking into the effects of the new uniform system of accounts on the high cost fund; and considering changes in the separations treatment of WATS access service.

The Alaska Joint Board

In 1985 the FCC created another Joint Board (CC Docket No. 83-1376) to analyze the compatibility of current rate integration policies and competition in the provision of telecommunications service between Alaska and the contiguous States. Alaska's rates for telecommunications services are not integrated with those of the lower forty-nine. The Alaska Joint Board is analyzing economic and social policy data to determine to what extent urban areas should continue to subsidize rural service and if the United States should continue to maintain nationally averaged rates. These issues are very politically sensitive and have shown clear benefit from the Joint Board process. Naturally, decisions fashioned by a board of Commissioners from the FCC,

Alaska and the lower forty-nine States are more likely to reflect concerns of the broad variety of interested parties.

Other Joint Boards

Certain matters of mutual State and Federal concern either have insignificant impact on separations or require narrowly targeted attention. Accordingly, a Joint Board was established in 1985 to determine interstate and intrastate usage of Feature Group A and B minutes of use for computation of access charges (CC Docket No. 84-124), and another was established in 1986 to conform the Separations Manual to the new Uniform System of Accounts (CC Docket No. 86-297). Last year, the USoA Joint Board completed its work simplifying the Separations Manual which should result in significant administrative cost savings which willl be passed on to consumers through lower rates. The main Joint Board will monitor the impact of these changes as it looks at the effects of the subscriber line charge. The Feature Group A and B Joint Board should complete its final Order by September of this year.

The NARUC has also requested that the FCC establish another Joint Board if it pursues its proposal to impose price cap regulation on AT&T.

Joint Board Travel Expenses

Due to the significantly expanded monitoring role the main Joint Board has undertaken and the full agenda of the Alaska Joint Board, the NARUC respectfully requests that Congress appropriate the Administration's request of $100,000 for FY89 to defray the travel expenses of the State members of the Joint Boards and their staffs. Section 410(a) of the Communications Act provides the necessary authorization for the appropriation of these funds.

Indeed, the States' in-kind contribution well exceeds $100,000 in terms of the State-paid compensation to the twenty-four State participants in the work of the Joint Board. While

the full salaries of the Joint Board staffers are paid by their State commissions, an average of one-fourth of their time is spent on Joint Board matters.

In the past, Congress has recognized that the participating State Joint Board members and their staff render a national service when a Joint Board is convened. In 1982 legislation involving telecommunications competition and deregulation (S. 898 and H.R. 5158) contemplated the establishment of a Joint Board to ascertain jurisdictional cost separations for the computation of access charges and provided for the employment of staff and payment of travel expenses for the four State Board members. Moreover, in 1983, the universal telephone service preservation legislation introduced in the House and Senate (H.R. 4102 and S.1660) envisioned the Joint Board as a permanent entity to administer a universal service fund for the maintenance of universal telephone service at affordable rates. Although these pieces of legislation were never enacted by Congress, the contemplated role of a Federal-State Joint Board in each bill clearly demonstrates Congressional recognition of the significant contribution made by State regulators to the development of national telecommunications policy.

State involvement is essential to determining crucial telecommunications issues because State officials are uniquely situated to assess the needs of their consumers and to balance any competing interests. Moreover, the Federal government benefits in convening Joint Boards by acquiring the benefit of State expertise, conserving the use of Federal officials and strengthening Federal-State cooperation. It would be inappropriate for a few State commissions with limited travel budgets to bear the travel, food and lodging expenses of the cooperating commissioners when the service these officials and the staff provide is of national benefit.

Conclusion

At a time when the telecommunications industry is undergoing

a dramatic transformation it is imperative that Federal and State regulatory bodies continue to work together to implement the impending changes and ensure a smooth transition without disruption in services to the public. In order to maintain effective State participation in these efforts, the NARUC respectfully urges the Subcommittee's support for an appropriation to defray the expenses of the State commission and staff members of the Federal-State Joint Boards.

Respectfully submitted,

Paul Rodgers
General Counsel

Caroline Chambers
Associate Director,
Congressional Relations

STATEMENT OF

THE AMERICAN ASSOCIATION OF RETIRED PERSONS

The American Association of Retired Persons welcomes the opportunity to testify before the Senate Commerce, Justice, State and the Judiciary Appropriations Subcommittee. At the outset, we want to commend this Subcommittee for its continued support of the Legal Services Corporation (LSC) and other key agencies and programs that affect the daily lives of older Americans. You have exercised vital leadership in these areas, and the Association is deeply appreciative.

We recognize that your time is limited. Consequently, our presentation will be brief. Basically, we shall focus on two major objectives: (1) the LSC and (2) the Equal Employment Opportunity Commission.

A. Legal Services Corporation

The high cost of legal assistance continues to be a major problem for older Americans. The harsh reality is that a substantial proportion of elderly persons simply cannot obtain legal services at a price they can afford, especially for complex issues or those requiring a significant expenditure of time by an attorney.

Unfortunataely, many older Americans are forced to fend for themselves when a legal problem arises -- whether it involves

understanding the technicalities of federal programs, litigation, or just planning their personal affairs. The net impact is that far too many elderly persons accept injustice because they do not have the benefit of informed counsel to apprise them of their rights or remedies.

These points were made emphatically in a recent national survey conducted by Hamilton, Frederick & Schueders for the Association. This survey of 2,000 older Americans projected that nearly 12 million persons 60 years of age or older experience a legal problem, in varying forms, each year. Yet, the LSC Act and the Older Americans Act -- the primary programs for funding legal assistance for aged persons -- serve only 250,000 older individuals, or about 2% of those needing legal assistance.

A clear need exists to make legal representation more readily available for older Americans, especially for low-income elderly persons (some four and a half million persons in the 60+ age group have incomes at or below the poverty line). Additionally, homebound and institutionalized elderly persons continue to be underrepresented in legal services programs. AARP urges the Subcommittee to approve report language to direct the LSC to develop demonstration projects to explore appropriate delivery techniques to serve these hard-to-reach individuals.

We want to reaffirm the Association's support for the continued funding of state and national support activities, the clearinghouse, the computer assisted legal research centers, the supplemental field programs and the regional training centers. All of these support activities are crucial for local legal services programs to be successful.

The Association recognizes that Congress is operating under the pressure of great budgetary constraints because of

unacceptably large federal deficits. For these reasons, the Association urges the Subcommittee to increase funding for the LSC in a fiscally responsible manner, taking into account inflation and the growing demand for legal services.

AARP is also concerned about non-funding issues affecting the LSC. First, the LSC Board of Directors has attempted recently to establish criteria, which the Association considers inappropriate, for selecting directors for local legal services providers (e.g. requiring possible nominees for legal services boards to reveal their political affiliations). We are, therefore, pleased by the recent Congressional action to block these regulations from being implemented. We further call upon the Congress to reject any renewed efforts by the LSC to resurrect these regulations.

Second, we believe that existing protections under Section 1606 of the LSC regulations (e.g. a right to a hearing before funding is terminated) should be extended to subgrantees as well. The Subcommittee has previously included report language to make these safeguards available for subgrantees. The Association strongly supports these efforts. We believe these protections should be written into the FY 89 Appropriations Act for the LSC.

Third, AARP urges the repeal of the provisions in Section 1010 (c) of the LSC Act which apply LSC regulations to non-LSC funds. AARP believes that non-LSC funding should not be governed by LSC regulations -- otherwise a small grant to an agency from LSC could effectively govern the entire operation of the agency. This represents an overreaching of LSC regulations and inappropriate government interference. In recent years, the Appropriations Committee has included comparable provisions affecting other LSC activities.

B. Equal Employment Opportunity Commission

An amendment to the FY 1988 state, Commerce, Justice Appropriation bill and incorporated in the FY 1988 Continuing Resolution suspended the EEOC's rule that would have permitted employees to waive their rights under the Age Discrimination in Employment Act (ADEA) without supervision by the EEOC or the courts. 29 C.F.R. 1627.16. This rule was in direct conflict with the language and purpose of the ADEA and its incorporation of the procedures under the Fair Labor Standards Act (FLSA). The amendment suspending the rule - which also prohibits the EEOC from using any funds for purposes of otherwise giving effect to a policy in support of unsupervised waivers - restored important rights granted to older workers under the law. Unfortunately, the EEOC has not been abiding by the provisions of this amemdment. For example, the Chairman and Vice-Chairman have both indicated publicly that they continue to abide by the policy that the ADEA permits unsupervised waivers. This sends a strong message to employers that the EEOC will not supervise or otherwise disincent employers from seeking and obtaining such waivers.

AARP urges Congress to retain the amendment in passing the EEOC's FY 1989 appropriation. Given the refusal of the present EEOC Commissioners to vigorously protect the rights of older workers, Congressional action is necessary to ensure that the EEOC not diminish those rights, as its waiver rule would do. (Attached hereto is AARP's testimony before the House of Representatives Subcommittee on Employment Opportunities on this issue).

In conclusion, the Association believes that its recommendations are both substantively sound and fiscally

responsible. We call upon the Subcommittee to incorporate these measures in the Fiscal Year 1989 Commerce, Justice, State, and Judiciary Appropriations Act and its accompanying report.

Finally, we want to thank you again for your past support. We look forward to working with the Subcommittee before, during, and after the markup of your Fiscal Year 1989 funding bill.

ATTACHMENT

UNSUPERVISED WAIVERS UNDER THE

AGE DISCRIMINATION IN EMPLOYMENT ACT

presented by

JUDITH BROWN

National Treasurer; Member, Board of Directors

MR. CHAIRMAN AND MEMBERS OF THIS COMMITTEE:

I AM JUDY BROWN, NATIONAL TREASURER FOR THE AMERICAN ASSOCIATION OF RETIRED PERSONS. THANK YOU FOR THIS OPPORTUNITY TO DISCUSS AARP'S CONCERNS ABOUT THE EEOC'S ENFORCEMENT - OR LACK THEREOF - OF THE AGE DISCRIMINATION IN EMPLOYMENT ACT, AND ESPECIALLY ITS RULE TO PERMIT UNSUPERVISED WAIVERS OF EMPLOYEES' A.D.E.A. RIGHTS.

ALMOST TEN MILLION OF AARP'S 28 MILLION MEMBERS ABOVE AGE 50 WORK FULL- OR PART-TIME, MANY OF WHOM ARE PROTECTED BY THE A.D.E.A. THE EEOC'S POSITION ON UNSUPERVISED A.D.E.A. WAIVERS IS CONSISTENT WITH ITS POSITIONS ON EVERY SINGLE A.D.E.A. POLICY IT HAS ADDRESSED IN THE PAST THREE OR FOUR YEARS. THE EEOC HAS NOT ONLY FAILED TO ENFORCE THE LAW AND ITS OWN REGULATIONS, BUT HAS TAKEN STEPS THAT DIMINISH THE RIGHTS OF OLDER WORKS IN THE AREAS OF PENSION BENEFIT ACCRUAL, EARLY RETIREMENT INCENTIVES, APPRENTICESHIP PROGRAMS, ADVERSE IMPACT CASES AND THE PROCESSING OF AGE DISCRIMINATION CHARGES.

THESE PROBLEMS ARE NOT CAUSED BY INSUFFICIENT FUNDS IN THE EEOC BUDGET, AS CHAIRMAN THOMAS ALLEGES. RATHER, THEY REFLECT A CONSISTENT EEOC BIAS IN FAVOR OF THE BUSINESS COMMUNITY ON MATTERS OF POLICY. I HOPE THAT CONGRESS' INCREASING CONCERN ABOUT THE EEOC'S ACTIONS, AND HEARINGS SUCH AS THIS, WILL RESULT IN FAIRER INTERPRETATION AND ENFORCEMENT OF THE A.D.E.A. BY THE EEOC IN THE FUTURE.

THE WAIVER RULE

THE EEOC'S "WAIVER RULE" WAS PROPOSED IN OCTOBER 1985 IN RESPONSE TO A FEDERAL COURT CASE, RUNYAN V. NCR. RUNYAN, AN EXPERIENCED LABOR LAWYER, ENTERED INTO A CONSULTING AGREEMENT WITH HIS EMPLOYER AFTER HE WAS TERMINATED FROM HIS FULL-TIME JOB. HE SIGNED A WAIVER OF ALL CLAIMS BUT, AFTER THE CONSULTING AGREEMENT EXPIRED, SUED HIS EMPLOYER FOR AGE DISCRIMINATION IN CONNECTION WITH HIS TERMINATION. THE 6TH CIRCUIT ULTIMATELY RULED THAT, UNDER THE CIRCUMSTANCES, THE WAIVER WAS VALID EVEN THOUGH IT WAS NOT SUPERVISED BY THE EEOC. THE COURT REFERRED TO THE EEOC'S PROPOSED RULE IN ITS DECISION.

THIS SINGLE, CLEARLY UNIQUE, CASE PROMPTED THE EEOC TO ISSUE A SWEEPING RULE PERMITTING ANY EMPLOYEE TO WAIVE HIS OR HER A.D.E.A. RIGHTS IN ALMOST ANY CIRCUMSTANCE.

AARP AND OTHERS, INCLUDING MANY MEMBERS OF CONGRESS, OBJECTED TO THE PROPOSED RULE. AARP ARGUED THAT IT VIOLATED THE PROVISIONS OF THE FAIR LABOR STANDARDS ACT INCORPORATED INTO THE A.D.E.A.; THAT THE EEOC'S RELIANCE UPON TITLE VII PROCEDURES WAS MISPLACED; THAT THE RIGHTS OF OLDER WORKERS WOULD BE SERIOUSLY JEOPARDIZED; AND THAT THE EEOC DID NOT HAVE THE AUTHORITY TO ISSUE BLANKET EXEMPTIONS FROM THE REQUIREMENTS OF THE A.D.E.A. AARP'S COMMENTS AND PETITION FOR RECONSIDERATION OF THE FINAL RULE, ARE ATTACHED TO MY TESTIMONY FOR THE RECORD. BOTH WERE REJECTED BY THE EEOC.

ALTHOUGH THE EEOC SAYS ITS RULE WILL MAKE IT EASIER FOR OLDER WORKERS TO "NEGOTIATE" SEVERANCE AGREEMENTS WITH THEIR

EMPLOYERS, IT IS CLEAR THAT THE REAL PURPOSE IS TO PROTECT EMPLOYERS ENGAGED IN EARLY RETIREMENT INCENTIVE PROGRAMS, LAYOFFS OR REDUCTIONS IN FORCE. INDEED, THE RULE WILL MAKE IT EASY FOR EMPLOYERS TO IMPLEMENT SUCH PROGRAMS IN AN ILLEGAL OR DISCRIMINATORY MANNER BY ALMOST COMPLETELY INSULATING THEM FROM LIABILITY UNDER THE A.D.E.A. THIS IS BECAUSE EMPLOYEES AFFECTED BY THESE LARGE -SCALE PROGRAMS ARE NOT GIVEN AN OPPRTUNITY TO "NEGOTIATE" THE TERMS OF THEIR SEVERANCE OR WAIVER - AND ARE GENERALLY UNAWARE THAT DISCRIMINATION MAY BE A FACTOR. THESE EMPLOYEES ARE NOT SETTLING A CHARGE OR CLAIM; THEY ARE WAIVING RIGHTS AT A TIME WHEN IT IS IMPOSSIBLE FOR THEM TO FULLY KNOW THE NATURE OR VALUE OF THOSE RIGHTS.

THE RULE WILL ALSO SIGNIFICANTLY INCREASE PLAINTIFF'S PROCEDURAL OBSTACLES. THE A.D.E.A. PRESUMES THE INVALIDITY OF UNSUPERVISED WAIVERS; THE EEOC'S RULE TURNS THIS ON ITS HEAD. PLAINTIFFS AND CHARGING PARTIES WILL BE FORCED, FOR THE FIRST TIME, TO REBUT A PRESUMPTION OF VALIDITY BY PROVING THAT A WAIVER WAS "KNOWING AND VOLUNTARY" BEFORE THEY CAN ASSERT A VALID CLAIM. THIS IS AN ENORMOUS AND COSTLY BURDEN FOR PLAINTIFFS.

CONTRARY TO CHAIRMAN THOMAS' ASSERTIONS, IT WILL NOT COST THE EEOC MILLIONS OF DOLLARS AND HUNDREDS OF EMPLOYEES TO SUPERVISE MILLIONS OF WAIVERS. NOT ONLY ARE THESE FIGURES SPECULATIVE, BUT THE EEOC NEED NOT GET INVOLVED IN EVERY INDIVIDUAL NEGOTIATION BETWEEN EMPLOYER AND EMPLOYEE. RATHER, BY PRESUMING THE INVALIDITY OF UNSUPERVISED WAIVERS, THE LAW DISCOURAGES EMPLOYERS FROM SEEKING THEM IN NON-ADVERSARIAL CIRCUMSTANCES, SUCH AS EARLY RETIREMENT PROGRAMS. INSTEAD, IT ENCOURAGES EMPLOYERS TO DEAL WITH EMPLOYEES IN A FAIR AND EVEN-HANDED MANNER TO PROTECT THEMSELVES FROM LAWSUITS. IF AN EMPLOYER WANTS A WAIVER, THE EMPLOYER SHOULD SEEK OUT THE EEOC.

THERE ARE MANY ADVANTAGES TO THIS. FIRST, IT ENCOURAGES EMPLOYERS TO STRUCTURE TERMINATION AND EARLY RETIREMENT INCENTIVE PROGRAMS IN A NON-DISCRIMINATORY MANNER, AVOIDING LATER DISPUTES. SECOND, IT ENCOURAGES THE EEOC TO BECOME INVOLVED IN THE

STRUCTURING OF SUCH PROGRAMS AT EARLY STAGES, THUS LESSENING THE POTENTIAL FOR DISCRIMINATION. THE EEOC DOES - OR SHOULD - HAVE THE RESOURCES FOR THIS. THIRD, IT INSURES THAT EMPLOYEES DO NOT SIGN AWAY THEIR RIGHTS AT A TIME WHEN THEY ARE UNABLE TO DETERMINE WHETHER THEY HAVE BEEN DISCRIMINATED AGAINST.

THE EEOC ARGUES THAT ITS RULE HAS A NUMBER OF PROTECTIONS AGAINST ABUSE OF UNSUPERVISED WAIVERS. THESE SO-CALLED "PROTECTIONS" ARE OF MINIMAL HELP. BECAUSE EVIDENCE OF AGE DISCRIMINATION IN LARGE SCALE TERMINATIONS IS OFTEN UNAVAILABLE UNTIL LONG AFTER ANY INDIVIDUAL WAIVER IS SIGNED, IT IS IMPOSSIBLE FOR THE WAIVER TO BE TRULY "KNOWING AND VOLUNTARY." FURTHERMORE, FEW EMPLOYEES WILL HAVE REASON TO FILE A CHARGE WITH THE EEOC ONCE THEY HAVE SIGNED A WAIVER, ESPECIALLY SINCE IT IS UNCLEAR WHAT, IF ANY, ADMINISTRATIVE RELIEF THE EEOC COULD PURSUE ON THEIR BEHALF.

ALTHOUGH AARP RECOGNIZES THAT EARLY RETIREMENT INCENTIVE PROGRAMS ARE NOT PER SE VIOLATIONS OF THE A.D.E.A., WE ARE CONCERNED AND SKEPTICAL ABOUT ANY EMPLOYMENT PRACTICE THAT ASSUMES THAT OLDER WORKERS ARE THE MOST EXPENDABLE. ONE OF THE PURPOSES OF THE A.D.E.A. IS TO "ENCOURAGE THE EMPLOYMENT OF OLDER AMERICANS." LIKE EVERY OTHER EMPLOYER ACTION, THESE PROGRAMS MUST BE CAREFULLY STRUCTURED AND SCRUTINIZED TO ENSURE THAT THEY DO NOT DISCRIMINATE. THE EEOC RULE WOULD INSTEAD MAKE IT EASIER TO DISCRIMINATE IN SUCH PROGRAMS.

IT MUST BE EMPHASIZED THAT THE A.D.E.A.'S PROHIBITION AGAINST UNSUPERVISED WAIVERS IS NOT DESIGNED TO ASSIST THE FEW EMPLOYEES WHO ACTUALLY CAN NEGOTIATE THE TERMS OF THEIR SEVERANCE FROM THEIR EMPLOYER. THESE PERSONS ARE UNLIKELY TO SUE. IT IS THE MANY, MANY THOUSANDS OF EMPLOYEES WHO ARE UNABLE TO NEGOTIATE AND ARE UNAWARE UNTIL MUCH LATER THAT THEY WERE DISCRIMINATED AGAINST THAT THE LAW PROTECTS - AND THE EEOC'S WAIVER RULE IGNORES.

I STRONGLY URGE YOU TO RETAIN THE CONGRESSIONAL SUSPENSION OF THE EEOC'S WAIVER RULE.

TESTIMONY

OF

DAVID J. BRUGGER, PRESIDENT

NATIONAL ASSOCIATION OF PUBLIC TELEVISION STATIONS

Introduction

The National Association of Public Television Stations is pleased to provide testimony in support of a fully funded Public Telecommunications Facilities Program (PTFP), the matching grant program administered by the National Telecommunications and Information Administration (NTIA) within the Department of Commerce.

Our members, the nearly 300 public television stations throughout the country, are grateful for the support of this Subcommittee, both for recognizing the need for this vital program for public television and for appropriating reasonable levels of support to meet that need. Each year's appropriation has provided the leverage that has allowed public television programming to reach families throughout the country.

Summary of Request

The PTFP program has made possible the growth and development of a viable nationwide public television service that is available to nearly all of us. To put that value in more important, human terms, over 93% of the nation's homes and classrooms can now receive a free public television signal.

We urge this Subcommittee to continue its strong support for the PTFP program. We recommend that you deny the Administration's request to rescind all but the administrative costs of operating the program in the current fiscal year. We ask instead that the Committee recommend an appropriation of $36 million for fiscal year 1989, the amount included in pending re-authorization bills in the Senate (S.2114) and the House (HR.4118).

In this current fiscal year, public broadcasting stations have submitted 304 applications totalling $68 million in requests for matching funds from the total appropriation of $19.6 million. While this demonstrates the great need for this program, this FY1988 appropriation level was less than both the authorized level for the program of $32 million and the previous year's appropriation of $20.5 million. We ask this subcommittee to oppose further cuts in PTFP's FY1988 appropriation by denying the Administration's pending rescission request.

Nearly two-thirds of all public television stations are licensed to universities, local school boards, and state governments. In most instances, these stations are prohibited by state law from carrying funds forward from a given year for equipment needs in the future; in other words, many cannot develop a fund to amortize equipment replacement costs over the years as commercial stations do. All too often, they must wait for actual breakdown of the equipment to secure state or institutional support and then seek the federal match to realize the full investment needs.

In the case of stations licensed to community organizations --including many of our major program production centers--significant cash demands for capital equipment in local budgets can be prohibitive, especially when a station is just beginning or seeks to upgrade to reach new areas or improve its technical quality.

For FY1988, the nation's public television stations seek the full amount pending in authorization bills for PTFP, a total $36 million. Given the great need to replace obsolete equipment at our public stations across the country, and to continue to extend the availability of our programs to those Americans not yet served, we believe this is a reasonable request.

Need for Modest Federal Support Continues

Construction of the public television system began in 1953,

and by 1962 only a quarter of the nation's homes could receive a signal. Since the program's inception in 1962, the federal investment of just $345.5 million has spurred contributions from individuals, businesses, and state and local governments to build a system whose total replacement value is now $1.5 billion, excluding buildings and land. In terms of looking at PTFP as leverage money, that's one federal dollar for every five local dollars, not including the on-going local operations dollars, which would add even more to the federal leverage.

Building these stations does not end our challenge of getting and keeping public television on the air. Since many of our stations were built and went on the air at the same time, we expect major transmission equipment replacement needs to rise steadily for the next several years, peaking in the mid-1990's. Without the vital linchpin of federal support provided by PTFP, equipment needs cannot be met and our signal could not be extended.

The transmission of a television signal requires much more than the flip of a switch; it involves the smooth co-operation of an immeasurable number of intricate electronics. These can malfunction, become outdated, or just plain wear out even with the most painstaking attention to their care and operation. Too many public television stations are using equipment that has gone far past its useful life. Overall, capital replacement in public television does not begin to keep up with real need--it is not even close to professional engineering recommendations.

Our studies show that it will cost an estimated $174 million per year merely to sustain the present system with updated equipment. In addition, it will cost over $12 million per year to extend a first service to those in America who cannot now receive a public television signal of any kind. The total capital needed for fiscal 1988 in current dollars is $186 million, based on NAPTS' surveys and analyses. (See charts attached.)

This year (FY1988), the list of grant applications for PTFP totals 304 requests. These applications are all backed by local dollars and also don't include a single cent toward standard operating costs, buildings, or land. With only $19.6 million in total available in grant funds this year, over 75% of this year's applications will not be funded, leaving those unsuccessful applicants with failing equipment for at least another year. In this year alone, 91 applications of the total 304 are re-activated from last year.

Based on the fact that over 97% of the nation's homes currently receive a public television signal, some have concluded that the PTFP program is no longer necessary. Obviously, just the opposite is true. Working broadcast equipment at local stations is vital to public television's mission. Without the hardware operating at local stations, programs simply can't be broadcast.

The nation's public television stations need your support to insure that the PTFP program will continue to provide the important matching dollars that have built our current public stations and will help maintain them into the future. We need to complete the system, but moreover, we need to preserve the past years' investment and keep our current system operating.

First Service Expansion Remains a Priority

The nation's citizens who support public broadcasting through their taxes but still cannot receive a clear public television signal should remain the PTFP program's highest priority.

There are still sizeable areas of the country which cannot receive an acceptable public television signal or any service at all. In the last few years, public television has reached into many of the previously unserved areas in the West--particularly Wyoming, Montana, and Nevada--but there are still pockets of unserved or underserved households across the country.

Many of our stations are hoping to expand their current

signal coverage into unserved pockets, but lack of money for the needed equipment has hampered expansion. In Arkansas, for example, the state-licensed Arkansas Educational Television Commission does not reach some of the western part of the state, nor does it reach its southeast corner. The addition of a signal translator would extend the Network's service to the southeastern area of the state. Likewise, new equipment could provide vital educational service to the western portion of the state.

In Tennessee, the East Tennessee Public Communications Corporation is seeking $1.2 million from PTFP this year to activate a new public television in Knoxville to provide a first service to nearly 800,000 people in the area known as western east Tennessee. This is one of the largest Designated Market Areas (DMA's) in the United States still unserved by public television.

Age, Overuse, and Maintenance Costs Handicap Efficiency

In order merely to deliver a signal to the public, a television station relies on basic equipment--a satellite dish antenna to receive programming, and a transmitter, tower, antenna and related equipment to transmit it. A transmitter's useful life is only 15 years; over 50 of our stations' are over 20 years old, almost 200 are over 15 years old, and over 200 are over 10. As previously mentioned, the need to replace these aging vital broadcast parts should peak by the mid-1990's.

One of the country's largest state public television networks, South Carolina Educational Television (SCETV), is seeking PTFP funds this year to replace a twenty-five-year-old transmitter and antenna system in Greenville. SCETV has received 24 PTFP grants totalling $4.1 million over the years, which have been the catalyst in raising more than $38 million from the state and private sources to build their network.

SCETV now operates eleven television stations, seven FM radio stations, a radio network for the blind, and a statewide

Instructional Televison Fixed Service (ITFS) that provides four channels of closed circuit television to serve public schools, colleges, hospitals, technical education centers, state agencies, and other locations.

Through the years, SCETV has served as a model state educational television system. In addition to serving 500,000 elementary school children, more MBA's are awarded from the University of South Carolina to students off campus through SCETV than to those in conventional classrooms. Some 70% of engineering graduate students receive their classes through television as well. Without the support of PTFP, SCETV's development would not have been possible, and its future would not be as promising.

Another state network in need of transmission replacement funds is the New Jersey Public Broadcasting Authority, the licensee of four non-commercial, educational stations. The New Jersey Network produces the only statewide non-commercial news in the country, and provides hundreds of hours of Hispanic, educational, and informational programming to other stations across the country.

The Network's program transmission and distribution system of links and microwave interconnections has not been upgraded or replaced since it was installed in 1971. Replacement parts for the current system are no longer manufactured. There have been long outages of this vital equipment which is no longer suitable for FCC licensing. Last year, New Jersey received $191,289 to replace some of the equipment; this year, New Jersey's pending application at PTFP for $197,550 if approved would help the system replace more equipment and would extend the Network's signal to Cape May.

Many of our stations came on the air with secondhand equipment from commercial stations; others continue to operate

with aging original equipment for which replacement parts are no longer available.

KTOO/Juneau, ALaska is requesting $360,000 from PTFP this year to replace worn out studio and field production equipment. Two of the station's current cameras required over one hundred hours of maintenance in 1987. A PTFP grant this year will help the station replace the cameras, as well as a videotape machine, a video switcher and other vital studio equipment.

For the stations within our system who produce large amounts of programs for the national program schedule, studio equipment needs are vital not only to their own viewers, but to public television's national audience.

WNET/New York/Newark, one of public television's major program producing stations, is requesting $130,000 from PTFP this year to replace four old videotape machines and add three new ones. The old machines require expensive maintenance and have frequent on-air outages. The costs to maintain the old machines take vital resources from the station's local and national productions.

Another point worth mentioning in support of the PTFP program is that nearly two-thirds of our public television stations operate in the UHF band--Channels 14-69. Not only is reception of a quality signal difficult for half of the country's homes from UHF stations, but it is an extremely expensive signal to operate. The FCC has reported that it costs nearly four times as much to operate equivalent signals on UHF as on VHF.

Seeking to upgrade the quality of its signal to residents in the Eugene/Springfield area, Oregon Public Broadcasting is seeking funds from PTFP this year to establish a new public television facility operating on Channel 28 in Eugene. This expansion of

service resulted from a distribution and planning study funded by NTIA on Oregon's public broadcasting needs.

Conclusion

Public television stations are best known for bringing programs like Sesame Street, National Geographic Specials, the MacNeil/Lehrer Newshour, and Great Performances into America's homes and classrooms. The hardware necessary to produce, distribute and transmit these and all of public television's programs is the crucial part of television that brings scholar to eager classroom, performer to grateful audience, and newscaster to informed viewer.

The challenge of the federal government to provide the seed money to bring this quality public television to unserved or underserved areas of the country and the people who live there remains unmet. And many stations delivering programming have equipment that is living on borrowed time.

Since 1962, public television stations across the country have proven time and again their success at matching the federal government's commitment of funds for their equipment needs with local dollars. Their purchases of equipment have come after years of costly maintenance, embarassing outages, and years of planning.

Within the non-profit world, capital formation is extremely difficult and television equipment costs are more than substantial. The challenge of the PTFP's matching grants is very productive, and the program is extremely well-administered.

We believe that the $36 million pending in the two re-authorization bills before the Congress is strongly needed. These funds will go a long way toward meeting public broadcasting's equipment needs.

Thank you.

SUMMARY OF PROJECTIONS
REPLACEMENT COSTS AND COSTS OF NEW FACILITIES
PUBLIC TELEVISION FIELD SYSTEM
(IN THOUSANDS)
1989 - 1998

	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98
IN 1983 DOLLARS:										
REPLACEMENT COSTS:										
EXISTING SYSTEM @12/31/87	151,917	151,917	151,917	151,917	151,917	151,917	151,917	151,917	151,917	151,917
PROJECTED FOR FY89 - FY98	1,037	2,605	4,557	5,940	7,258	8,497	9,735	10,536	10,694	9,599
SUBTOTAL - REPLACEMENT COSTS	152,954	154,522	156,474	157,857	159,175	160,414	161,652	162,453	162,611	161,516
PLUS ORIGINAL COST OF NEW FACILITIES PROJECTED FOR FY89 - FY98	10,840	15,780	18,470	13,060	12,550	11,740	11,740	10,810	7,810	340
TOTAL FACILITIES NEEDS IN 1983 DOLLARS	163,794	170,302	174,944	170,917	171,725	172,154	173,392	173,263	170,421	161,856
IN CURRENT DOLLARS:										
REPLACEMENT COSTS:										
EXISTING SYSTEM @12/31/87	173,109	180,022	187,222	194,712	202,505	210,602	219,019	227,784	236,899	246,379
PROJECTED FOR FY89 - FY98	1,181	3,087	5,615	7,614	9,675	11,779	14,035	15,797	16,676	15,567
SUBTOTAL - REPLACEMENT COSTS	174,291	183,109	192,838	202,326	212,180	222,381	233,054	243,582	253,576	261,946
PLUS ORIGINAL COST OF NEW FACILITIES PROJECTED FOR FY89 - FY98	12,352	18,699	22,762	16,739	16,729	16,275	16,926	16,209	12,179	551
TOTAL FACILITIES NEEDS IN CURRENT DOLLARS	186,643	201,808	215,600	219,065	228,909	238,656	249,979	259,790	265,755	262,498

Sources: Economic factors - 1983-87, U.S. Department of Labor (BLS)
- 1988-98, Annual Increase in CPI estimated at 4%.
System valuation - PBS Engineering Committee Standards, Revised 1984

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NATIONAL PUBLIC RADIO

Statement of

DOUGLAS J. BENNET

PRESIDENT

Mr. Chairman and members of the Subcommittee, I am pleased to testify in support of appropriations for the Public Telecommunications Facilities Program (PTFP) administered by the National Telecommunications and Information Adminstration (NTIA).

As president of National Public Radio I represent over 300 public radio stations, many of which have relied and continue to rely on the PTFP for their very existence -- for new equipment to bring public radio to unserved and underserved areas and audiences or to replace costly worn-out or obsolete equipment that is essential to keeping their station on the air.

I want to thank you, Mr. Chairman, for sponsoring a public broadcasting authorization bill which includes authorization for the PTFP for fiscal years 1989-91. We encourage the subcommittee to appropriate the full $36 million for FY 1989 -- the authorization level included in S. 2114 and in the corresponding House bill, H.R. 4118.

The Public Telecommunications Facilities Program provides

matching grants to help public radio and television licensees purchase equipment to put new stations on the air, or replace worn-out or obsolete equipment in existing stations. It has been a key factor in building a public broadcasting system that now reaches 95 percent of the American people with a public television signal, and a little over 80 percent of the population with a local public radio signal. The PTFP continues to be of vital importance to the public radio system. Each year proposals totaling roughly four times the amount of available funds are submitted to the program.

The PTFP program offers much to communities in the United States. Of the $3.2 million received by radio applicants in 1987:

- o $87,000 will help establish a new public radio station to serve the Spanish-speaking residents of the Bakersfield, California area;

- o $86,000 will activate a new public radio station in the Aiken, SC area which will repeat the signal of the South Carolina Educational Radio Network.

- o A project in Portland, Oregon will replace obsolete tape recorders, consoles and other equipment in the facilities of the Golden Hours Radio Reading Service.

- o $76,000 will activate a noncommercial radio station to repeat the signal of KSKA-FM to the central Kenai Peninsula in South Central Alaska. By replacing the station's existing FM translator service, the project will bring public radio service to 17,000 unserved people.

While public radio stations are raising an increasing portion of their annual budgets from non-federal sources -- federal funds provide an average of only 15 percent of station budgets -- major equipment purchases are still beyond the reach of the majority of stations. As non-profit organizations which must raise operating funds anew each year, most stations are unable to aggregate the thousands of dollars needed to purchase or replace major pieces of equipment.

The continuing need for the PTFP is demonstrated by the historic and current imbalance between available funds and grant requests. Present funding levels don't begin to fill the system's needs. In FY 1987, PTFP considered 322 applications, totaling $82.9 million. One hundred and fifteen grants were awarded totaling only $19.2 million. This represents only 23 percent of the dollars requested and 35.7 percent of the applications considered. If the appropriated level had been $36 million, the funding level we are seeking for FY 1989, PTFP would still have only been able to provide 43 percent of the dollars requested.

Respondents to a 1987 survey of NPR member stations estimated their three-year equipment replacement costs at $68,500, and for many, large ticket items, like towers and transmitters, will soon need to be replaced. An astounding 74% of the respondents to the same survey said that, due to equipment failure, they had to go off the air at least once in the three years prior to 1987. Going off the air is virtually unheard of in commercial radio; adequate funding levels are necessary to help stations replace obsolete equipment so that such disruption in service doesn't happen.

In its argument that the PTFP program is no longer necessary, the Administration cites that 95% of the population receives a public broadcasting signal. That is not true for public radio. Nearly 20% of the population still does not receive a public radio signal, and there are large geographic areas, especially in the western United States that do not have public radio. In order to be truly a national service, we must continue to establish stations to reach unserved audiences.

The Corporation for Public Broadcasting, National Public Radio, and the National Federation of Community Broadcasters have all recently stated a goal of increasing the number of CPB-qualified public radio stations. In addition to reaching the 18 percent of Americans who are out of range of any CPB-qualified public radio station, public radio today has an opportunity to serve more and different groups of Americans. In most markets there is only one CPB-qualified station. In some markets there may be two or even more CPB-qualified stations and perhaps 30 - 40 commercial stations. Yet even that number of commercial stations does not meet the needs of a diverse audience -- particularly those of the elderly, ethnic minorities and children. Neither can just one or two public radio stations.

A single radio station can put out just one stream of programming at a time. Many more Americans, including the elderly, ethnic minorities and children, can be better served by public radio if we can substantially increase the number of CPB-qualified stations. That increase will require capital equipment; assistance from the PTFP program will be needed to help public radio achieve this goal of reaching audiences presently unserved or underserved by the system.

While PTFP grants to public radio stations are not large, they are important seed money for capital replacement projects. In FY 1987, the average public radio grant of $67,320 represented only 58 percent of the cost of the average project funded. Those federal funds mean a lot to the communities and stations which benefit from them, especially when you consider that in 1986 over half of the CPB-qualified stations had budgets of less than $450,000. And that does not include the many non CPB-qualified stations which are also eligible for these funds, and who on the whole have even smaller budgets.

The Public Telecommunications Facilities Program and its predecessor program have invested over $300 million in purchasing and maintaining the public broadcasting station equipment which together makes up the public broadcasting system in this country. Public television and radio use these facilities to provide quality cultural, educational and news programming across the country, from rural communitites and remote Alaskan villages to our largest urban centers. Public broadcasting's strong record of efficient, effective use of federal funds -- and proven ability to leverage non-federal resources with those funds -- merits continued support.
On behalf of NPR and its over 300 member stations I urge the subcommittee to recommend appropriation of $36 million for the Public Telecommunications Facilities Program for FY 1989.

WRITTEN STATEMENT

BY JAMES A. TIMMERMAN, JR.
EXECUTIVE DIRECTOR
SOUTH CAROLINA WILDLIFE AND MARINE RESOURCES DEPT.

AND

MARGARET A. DAVIDSON
EXECUTIVE DIRECTOR
SOUTH CAROLINA SEA GRANT CONSORTIUM

ON BEHALF OF THE

NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES

AND THE

SEA GRANT ASSOCIATION

Thank you, Mr. Chairman, for the opportunity to submit written testimony on behalf of the Sea Grant Association (SGA) and the Marine Colleges (NASULGC). I, James A. Timmerman, Executive Director of South Carolina Wildlife and Marine Resources Dept. and Chairman of the Board of Directors for the South Carolina Sea Grant Consortium which marshalls the talents of South Carolina's research institutions to work cooperatively on state, regional, and national marine resource needs. I am joined by Margaret A. Davidson, Executive Director for the South Carolina Sea Grant Consortium, President-elect of SGA. The SGA consists of 40 colleges, universities, research centers, industries and consortia, all dedicated to enhancing the Nation's capability to develop, use and manage our marine resources. NASULGC is composed of 149 colleges and universities with a total enrollment of about 3 million students. These institutions bestow a majority of the graduate degrees granted in the country.

We submit this testimony in support of the National Sea Grant College Program, which serves as a network of the 29 major Sea Grant programs working together with over 270 colleges and universities throughout the nation. As such, the program has built an effective and uniquely positioned network that serves as the vital link between federal and state agencies, industry, and the public by generating and widely disseminating new, relevant information fundamental to more effective natural resource management policy.

APPROPRIATIONS REQUEST

The Sea Grant Association requests an appropriation of $41.5 million for the Core Program, plus $5 million to fund the first phase of the new Strategic Research Program.

The $41.5 million is the amount allocated to the Core Program for FY 88 by last year's landmark reauthorization bill. Since the bill passed only after the appropriations bills had passed both houses of Congress, it appears to be a logical starting point for FY 89 instead. The modest additional funds above the original FY 88 base of $39 million would be used to begin the process of reversing the serious damage of past cuts and inflation on research and graduate education, and to enable small programs recently reaching, or currently aspiring to Sea Grant college status to adequately engage their institutional capabilities in high priority national activities.

We urge that the $41.5 be appropriated into two accounts, $39.5 million for grants to Sea Grant colleges, regional consortia, institutions and programs, and $2 million for administration of the program by the National Sea Grant College Program office of NOAA. This suggestion follows the precedent previously established for the nation's Coastal Management Program. It ensures continuation of the national program administration at a level modestly above current expenditures. It also establishes the level of funding to universities and other Sea Grant institutions that Congress expects to see maintained. This distinction should be helpful to all parties, including Congress, since there would be a much clearer understanding of where the money goes. Research funds to universities would still be subject to Congressional set-asides, such as the one for Small Business Research, but presumably would not be available for raiding, as in the past, for such items as OMB's current tax of $175,000 for "management savings," or the $158,000 which is now being diverted from Sea Grant to help pay the expenses of NOAA's Estuarine Program Office. (We have nothing against the Estuarine Program Office, but we fail to see why Sea Grant funds should be diverted to pay salaries for another NOAA office, especially when NOAA has separate Program Support funds to underwrite administrative expenses for the agency.)

The $5 million request for the Strategic Research Program is based on the FY 89 authorization level and responds to the need to have a credible beginning to a targeted Coastal Ocean initiative. At a time when a considerable national effort on Global Change is being launched under the sponsorship of NOAA and other agencies, Sea Grant is the primary vehicle for university research and education dealing with the areas of maximum productivity and the greatest change and stress in the marine environment: the Coastal Ocean and Estuaries. The Strategic Research Program was designed to implement a parallel effort to Climate and Global Change that focuses on the Coastal Ocean in a manner that is beyond the current resources of the Sea Grant program. This effort would build on past activities of the Sea Grant institutions, amplifying them at a level more nearly adequate for the purpose.

JUSTIFICATION

Congress, including this committee, has repeatedly cited the Sea Grant program as one of the most effective federally sponsored activities. During the 1987 reauthorization process, Congress again found that the program has made major contributions to the nation's economy and to the health of our coastline, estuaries and marine waters. The House Merchant Marine and Fisheries Committee report stated that Sea Grant has contributed markedly to the national economy and has distinguished itself as one of the flagships of our nation's ocean program. It called the Sea Grant network a national asset which must be nourished, as the program has recently survived on a subsistence diet. And the Senate Commerce Committee in its report emphasized the critical role that the Sea Grant network plays in developing and transferring technology and information among researchers, government managers, and the private sector.

On the basis of past achievements and the potential of the network, Congress recommended new initiatives for strategic and post-doctoral research, marine affairs and international cooperation. In addition to these substantive additions to the program, the reauthorization bill called for a major increase in authorization levels, both to fund the new efforts and to restore the most damaging losses due to inflation and recent cuts.

It is clear not only that past contributions have been

substantial, but also that Sea Grant is uniquely qualified to deal with current problems and opportunities of national concern: the need to better understand the causes and the potential solutions to the coastal water quality problem highlighted by the Office of Technology Assessment; concern over estuaries, critical habitat and coastal carrying capacity, a host of fisheries issues; and, the need to improve competitiveness in every sector of our economy.

The current interest in marine plastic debris has helped to highlight some of these concerns, while also showing the interrelationship among different parts of the marine sector. Sea Grant has been working on a range of educational activities about this problem, while also working to bring a number of diverse parties together to design cooperative approaches to solutions. Recently at the behest of the White House Domestic Policy Council, Sea Grant organized a national workshop that brought together fisherman, federal regulatory agencies, state officials, environmentalists and educators to look at the fisheries aspects of the issue, at the effects of recent legislation on fishermen and small ports, and at regulatory and incentive systems and how they might aid or inhibit effective responses among the various parties. The resulting report will be a significant part of the package that NOAA and a multi-agency task force will send to the Domestic Council and ultimately to the Congress. Only a nationwide network like Sea Grant could have brought such a group together at a workshop on very short notice and supplied the expertise and technical backup necessary for a productive effort.

Cuts, Inflation and the Core Program

Yet, even as needs and opportunities multiply, and even as a major reauthorization bill has been passed and signed, Sea Grant programs have found themselves with decreasing resources to assign to even the highest priority tasks. In addition to cuts in the early 1980's, Sea Grant programs have taken 11+% cuts over the past two years (a 4.3% cut in 1986 -- not restored, an additional 1% cut for 1987; and most recently the approximately 6% across-the-board cut in 1988). At the time of the writing of this testimony, an 8-9% reprogramming attempt is widely rumored to be in the wings, which would bring the cumulative 2-year cut to about 20%: we believe that this Committee joins us in wishing that important grant programs like Sea Grant were treated in a more even-handed and hospitable manner than is presently the case within NOAA. In addition, we have absorbed all pay and cost increases over the past decade.

Figure 1 dramatically illustrates the erosion in Sea Grant funding. The top line respresents appropriations for Sea Grant in nominal dollars, which peaked at $41.8 million in FY 1981. The appropriated funding has remained constant at $39 million since 1985. This figure does not, however, reflect the across-the-board cuts in 1986 and 1988 (denoted with asterisks). Adjusted for inflation using the Consumer Price Index (CPI), funds appropriated to the National Sea Grant College Program demonstrate a marked decline in buying power. However, this figure does not tell the whole story.

The CPI is based on a standard market basket of goods purchased by the average consumer. Inflation rates for research funding are still higher, due to the cost of scientific equipment and competitive bidding for the best researchers and students. This is illustrated by Figure 2. Although the real dollar amount of Sea Grant appropriations appeared to be relatively steady from 1982 to 1987, its purchasing power shrank drastically. Figure 2 depicts the decline in the number of graduate students supported by 22 Sea Grant programs between 1982 and 1987. The cumulative

decline is almost 40%, reflecting the increasing costs of graduate tuition and of competition for the best students.

These students are probably the most important product of the National Sea Grant College Program. They serve as the most effective mechanism for technology transfer: when they enter industry, government or research institutions, they carry cutting edge knowledge with them. In the past 20 years, over 8,000 Sea Grant graduate students have been trained in the natural and social sciences and engineering. These are very special students. Because of its interdisciplinary and issue-oriented character, Sea Grant has given these students a broader vision and deeper understanding of marine resource and environmental problems than the average graduate student gets. The continued and increased production of these graduates is essential to the economic, political and social health of this nation and, ultimately, to our national security. Without them, our valuable ocean resources will be poorly exploited and the environment misused. As a nation, we become less competitive economically and we fall behind in the coastal and ocean sciences.

For these reasons, the 1987 reauthorization legislation recommended core program funding levels of $41.5 million for FY 1988, $50.5 million for FY 1989 and $51 million for FY 1990. We are suggesting that $41.5 million be used this year to begin the phasing-in of this increase.

A Sea Grant Strategic Research Initiative

Congress designed the Strategic Research Initiative in order to enhance the capabilities of the Sea Grant network to address issues related to competitiveness and to the increasingly severe changes and stresses affecting the Coastal Ocean and Estuaries.

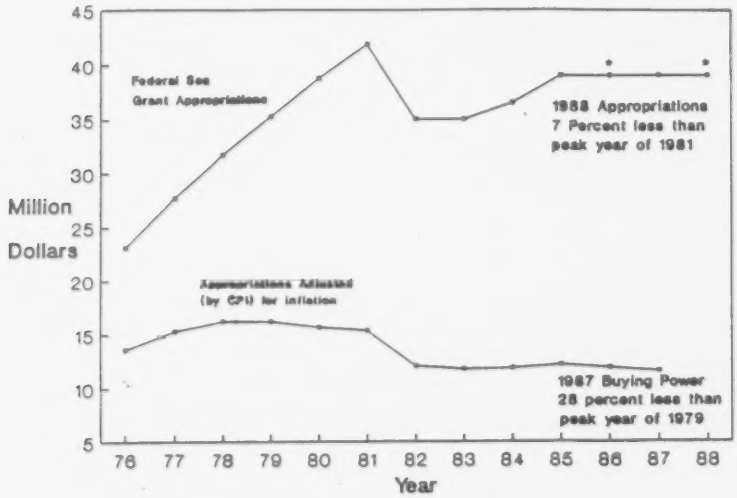
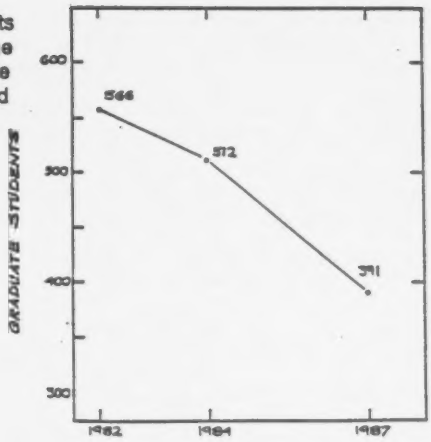


Figure 1. Sea Grant appropriations in nominal dollars and adjusted for inflation by the Consumer Price Index (CPI), 1976-1988. **Appropriation levels for FY 1986 and 1988 do not reflect across-the-board cuts of 4.3% and 6%, respectively.

Figure 2. Effect of grant cuts and inflation on the number of graduate students supported at 22 Sea Grant programs, 1982-1987. The cumulative decrease is 38%.



It was conceived that this initiative would derive from research begun as part of the core program, but where the problem was now of a scale and nature which demanded an accelerated enhanced effort. As defined in the legislation, the Strategic Research Initiative would focus on a few broadly identified needs:

"(1) critical resource and environmental areas that are precluded from adequate funding under other provisions of this Act because of--
(A) their national, international, or global scope, fundamental nature, or long-range aspects;
(B) the scale of the needed research effort, or
(C) the need for the broadest possible university involvement;

(2) areas where the strength and capabilities of the sea grant colleges, and sea grant programs, and sea grant regional consortia in mobilizing talent for sustained programmatic research and technology transfer make them particularly qualified to manage strategic marine research under this section." (Citation. Public Law 100-220, Dec. 29, 1987, 101 STAT. 1472.)

Sea Grant is the nation's Coastal Ocean Science Program, with unique capabilities to address priority problems relating to competitiveness, technology transfer, and the coastal ocean and estuarine aspects of global change.

Although the oceans have the potential to play a major role in the economy and well-being of most nations throughout the world, they have yet to achieve those benefits. Further here is a serious danger that the oceans will be misused and their productivity potential significantly reduced. In growing recognition of the ocean's potential benefits and vulnerability to misuse, the U.S. has recently taken several actions of jurisdiction, legislation and research programming. Concern of the public, private industry and governmental resource management agencies for optimal use of ocean resources, especially in the coastal ocean, is demanding fundamental information on how the system works.

With the growing concern for the coastal ocean it is now abundantly clear that the three-dimensional ocean is closely linked to long-range global changes that will affect us all. It is imperative that we make a national commitment to understand

and conserve the oceans on a global scale if we are to safeguard and enhance our national security in terms of our economic vitality and the health of future generations.

There is a growing consensus within the marine research community on the nature of the important research priorities for the next twenty years. Two significant reports (1985)[1] have addressed the essential priorities for future research and recommended action and planning in five primary subject areas:

-Biological Productivity and Living Resources
-Ocean Lithosphere and Mineral Resources
-Pathways and Fates of Materials in the Ocean
-Coastal Ocean and Estuarine Processes
-Global Oceanic and Climatic Processes

The Coastal Ocean and Estuarine Processes initiative closely fits the unique capabilities of the National Sea Grant College Program with its network of universities and multidisciplinary approaches to fundamental research. This network is a productive, innovative and efficient enterprise uniquely poised to address crucial national priorities in the coastal ocean. In addition to efficiently and effectively addressing multidisciplinary research initiatives, the Sea Grant universities also have an effective, creditable network of transferring information and research results to management and business entities.

We are proposing to address Coastal Ocean priorities as a Strategic Research Initiative. Through a consensus of a wide range of scientists and interested parties, we have identified five priorities of critical resource and environmental areas precluded from adequate attention through normal processes and for which unique capabilities have been built through the Sea Grant Colleges and Consortia.

1. Sediment and Shoreline Stability - the prospect of increasing rise in sea level places much of the U.S. shoreline stability in jeopardy. We need an integrated, scientific-based program to address the key physical, chemical and geological processes affecting sediment transport and shoreline stability, leading to better predictive capabilities.

2. Coastal Mineral Resources - the Exclusive Economic Zone (EEZ) proclamation focuses the need of developing a comprehensive understanding of the geologic resources, and the environmental, social and economic consequences of their exploitation, within 200 miles of the U.S. coastline.

3. Fisheries Recruitment Prediction - the fisheries resources of the U.S. are, with few exceptions, products of coastal ocean waters and adjacent estuaries. The ultimate goal of fisheries science is the accurate prediction of the status of species of interest in both the short-term and long-term. This will require integrating fisheries characteristics with physical dynamics and global climate.

4. Impact of Water Quality on Coastal Ocean Resources - Water

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[1]* "Emergence of a Unified Ocean Science," a long-range planning document for the NSF Ocean Sciences Program. "Ocean and Marine Resources: Research Priorities and Initiatives," report of the National Association of State Universities and Land Grand Colleges.

quality impacts every individual and every activity involving the U.S. coastal and Great Lakes areas. Multidisciplinary approaches are required to understand the fundamental nature of multimedia fates and effects.

5. Marine Biotechnology - With new and powerful biotechnology tools we can begin to harness the diverse and virtually unlimited capacity of natural systems to produce goods and services of benefit to man, to solve recalcitrant problems such as plastic debris, more effectively dispose of wastes, and enhance aquaculture production.

OTHER AREAS

The authorizing legislation for Sea Grant includes programmatic sections on governmental fellowships, postdoctoral fellowships, international activities, and marine affairs and resource management grants. The last of these has a separate authorization.

We are not asking for separate funding for any of these activities at this time. Particularly during a period of extremely scarce financial resources, we believe that the best way to deal with opportunities in these areas is to have them funded competitively as a part of the core program, with funding allocations being made according to quality and the need for various efforts. Sea Grant has made very significant funding commitments in all of these areas. The Sea Grant community continues to see them as important, but none at this time seem to deserve importance over other areas by separate designation for special funding treatment.

Sea Grant helped create the field of marine affairs and has been the funding mainstay for a decade and a half. In FY 1987, Sea Grant federal funds allocated to marine affairs research amounted to well over $2 million for the subjects and disciplines usually included in this area, and these funds helped attract an additional $519,000 from other federal agencies, in addition to state and local matching funds. These figures do not include funding on education and advisory services. While traditional educational support has leveled off after the period when substantial funds were allocated to building up marine affairs programs to the point where the universities could support their base operations, significant advisory services funds have been devoted to public education on marine policy issues. This is where the Sea Grant network has seen the greatest need for educational activity at this time, and it is where we have been putting our educational resources.

Most of Sea Grant activity in fact is involved with marine resource management. One of the basic thrusts of the Strategic Research Initiative will be a focus on the most critical science/management issues in the Coastal Ocean. It is the clear intent of the Sea Grant network that marine policy work be carefully integrated with the natural sciences and engineering research carried out on estuarine, coastal and water quality problems. However, as with the core program, this policy work should be integral to the program area, not a separately funded entity.

CONCLUSION

We are deeply grateful for the longtime and continuing support that this committee has given us. We are determined that our productivity and our emphasis on important priorities will

continue to justify this support. There is great energy in our network, together with a conviction that the opportunities and the needs for the work we do are greater than ever. We look forward to continuing to cooperate with you to address those opportunities and needs.

Thank you.

SOCIETY OF AMERICAN FLORISTS
STATEMENT

The Society of American Florists is a trade association which represents the entire floral industry. The Society has approximately 10,000 members, including growers, wholesalers, retailers and 144 floral industry trade associations whose memberships comprise an additional 22,000 businesses.

The floral industry is concerned because budget cuts to the Census Bureau's Agriculture Division have forced the Census Bureau to eliminate funds for the Census of Horticultural Specialties Report. The next census is scheduled for early 1989 -- reporting on 1988 production results. The Horticultural Specialties Report is the only comprehensive report on actual production of United States horticulture available. It provides unbiased statistics which are vital to the government, our industry, and which aid the consumer by helping to foster production and marketing efficiencies.

The Horticultural Specialties Report is unique and cannot be duplicated by private sources. By law, growers in the horticulture industry must report the information required by the census every ten years. The data collected by the census takers is objective, confidential, and more reliable than data which could be gathered through private industry efforts.

Statisticians at the Census Bureau possess knowledge and years of specialized experience that exist nowhere else. The census statisticians break the information down into categories of horticulture specialties by regions and states. This information enables industry analysts to make industry comparisons and predict industry trends.

Accurate and complete production figures can only be generated by the Horticultural Specialties Report.

Census also has very unique abilities involving mailing lists which cannot be duplicated elsewhere. The ability to identify horticultural growers from the general Census of Agriculture is part of the key, but the confidentiality that the Bureau can provide also aids in gaining the confidence of those who lend private mailing lists solely for the census. This kind of cooperation could not be bought with any amount of private funding, and there is no other government or horticulture industry report which contains such complete and accurate data.

In fact, only one other government report pertaining to floriculture industry production exists -- the annual Floriculture Crops Report published by the Department of Agriculture. The Floriculture Crops Report is an annual report of production figures for selected and specific crops in twenty-eight states. However, participation in the survey is voluntary and only operations with gross sales of $10,000 are invited to participate. Therefore the Floriculture Crops Report is not as comprehensive or accurate as the Census of Horticultural Specialties Report.

The Floriculture Crops Report was also cut out of USDA's budget several years ago to save money, but the lack of data created such uncertainty in the industry that Congress reinstated the funds needed and directed USDA to continue doing the report. In fact, USDA, even in the face of Gramm-Rudman cuts this year, has retained that report because of our industry's critical need for data.

It is disheartening and counter-productive for the floral industry to persuade one government agency of the need for horticultural statistics of annual projected production, only to find that we've lost the only actual production database we had for comparisons.

Using the two reports, the industry is able to have a reasonable estimate, at anytime, of its production activity. In the in-between census years, the census can be used as a base upon which to extrapalate the Floriculture Crops report to the entire universe of domestic production.

The Horticultural Specialties Report takes five years to complete. A census must first be taken and analyzed by Census Bureau statisticians. Congress appropriated money in FY86, FY87, and FY88 to prepare for collection of the data. An additional $800,000 will be needed in FY89 to continue that work. If the money is not appropriated in FY89, the nearly one-half million dollars of money already appropriated since 1986 will be totally wasted since the report cannot be finished without the 1989 funding.

Government itself is a prime-user of the data compiled by the Horticultural Specialties Report. One horticulture industry market analyst reports that the second highest request for industry statistics comes from various government agencies. State agriculture offices seek information that can be used to help appropriate extension service and research funds. There are many requests from politicians for information to answer constituent needs about which crops to grow.

The Environmental Protection Agency requests the data to aid in developing impact statements for new restrictions being placed on widely used pesticides. The Animal and Plant Health Inspection Service uses the data to try and determine potential effects should a reduced quarantine restriction suddenly admit a new pest to plague our industry. The U.S. International Trade Commission uses it to try and determine the effect imports have on domestic producers of ornamental products when they are investigating a countervailing duty or dumping allegation. Even the Michigan State Highway Department recently asked how to value a greenhouse it was condemning as it completed an Interstate around Detroit.

Without the Horticultural Specialties Report, the floral industry can only guess at the extent of its growth. The horticulture industry has made significant strides in the seventies, moving from a one-fifth billion dollar industry in 1970 to a one-half billion dollar industry in 1979. We estimate that wholesale floriculture in 1988 could be a $4.8 billion business, translating to over $10 billion at retail. This would mean the industry has more than tripled its growth in the last ten years. This does not count the services associated with flower sales; containers, ribbons, credit, delivery, design work, etc.

Floriculture is generating new business, new jobs, increased usage, and very positive economic activity. In 1987, production of ornamentals surpassed citras as Florida's top agricultural commodity. The industry provides exceptional growth opportunities for family businesses. According to United States personal consumption expenditure figures, consumer expenditures for flowers, seeds and potted plants increased by 28.5% from 1980 to 1983. Yet, even the increasing per capita consumption is still very low; about one foliage plant per person per year, and even less for flowering plants and cut flowers. Even per capita consumption of a plant as popular as the Poinsettia is only one-fifth of one plant per person per year.

Such a growth oriented industry must have accurate statistics so future growth will not be haphazard. Our industry's growers regularly make the most intensive investments in production of any form of agriculture. Greenhouse costs might begin at about $175,000 per acre, but they can easily run to five times that amount. A greenhouse which is adequate for one crop is not necessarily suitable for another. Prudent growers decide whether they are going to raise bedding plants or raise cut roses before they build a greenhouse. Production statistics aid in those decisions.

A grower must a'so be able to ascertain where there is room for

growth and where the market is so competitive he would be better off planting some other crop. Growers must be able to evaluate which crops will be in demand and which will not. Retailers and wholesalers must be able to plan market strategies knowing which crops will be available and making informed judgments about expected prices. Only through the use of appropriate statistics can the businesses in the industry expend their efforts with relative confidence that their efforts will yield maximum profits.

American growers must compete with imports in the domestic markets at the same time they are investigating foreign markets for export. Statistical uncertainty makes competition with foreign producers more difficult. A national on-going picture of the industry is essential to plan market strategy in a competitive market.

Educators and researchers who serve the industry use the census data to help them analyze the direction of the industry. Universities and trade schools need the data to devise curricula and training programs that would meet the needs for an expanded labor force.

According to the 1978 Horticultural Specialties Report, the floriculture industry accounted for 223,000 workers. Without the Horticultural Specialties Report, the industry can't tell you how many people we employ now. Lack of present data will make it impossible to estimate how many workers we can expect to employ in the future. Economic statistics would help the industry prepare to absorb new workers, enable trade schools to develop training programs which will be needed, and colleges to expand their horticultural departments.

Every Congressional district contains florists and many contain grower operations employing dozens of people. The horticulture industry pervades many aspects of American life, with 82% of all households engaging in some kind of horticultural pursuit in 1983. Gardening

ranked as the nation's number one outdoor leisure activity according to a gallop poll. The three most popular outdoor activities -- lawn care, flower gardening and vegetable gardening -- ranked ahead of all other forms of outdoor leisure activities including exercise, fishing, bicycling, camping and jogging. Horticulture is a very real consumer issue. It is also a small business issue and, of course, it is an agricultural issue.

Other food and fiber agricultural commodities have government statistical reports available to them as a matter of law. The floriculture industry is an important and thriving segment of agriculture and deserves the same consideration. Our growth record appears to be phenomenal and our potential enormous. We need the means to track that growth accurately so that we can realistically understand what has happened, is happening, and what might happen.

The Census Bureau's Horticultural Specialties Report is a legitimate, worthwhile government program. Any funds expended on the report would have a significant rate of return for the government because of increased industry profitability. Please, appropriate the required funds to have the Horticultural Specialties Report reinstated into the Census Bureau's budget.

In order for the Census Bureau to be able to complete the report, $1.6 million must be appropriated through FY90. In FY89, the Census Bureau requires $800,000 to continue the work started in FY86. We urge you to appropriate those funds for the Horticultural Specialties Report so that the horticulture/floriculture industry can achieve its full potential as a dynamic segment of the nation's agricultural economy and the economy in general.

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

NASAA

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April 14, 1988

Hand Delivered

Hon. Ernest F. Hollings
Chairman, Subcommittee on Commerce,
Justice, and the State, the Judiciary,
and Related Agencies
Committee on Appropriations
S-146A Capitol Building
Washington, D.C. 20510

Attention: Terryle Olson

Re: U.S. Securities and Exchange Commission
Budget Request, Fiscal 1989

Dear Chairman Hollings:

On behalf of the North American Securities Administrators Association, Inc. ("NASAA"), we are writing concerning the budget request of the Securities and Exchange Commission ("Commission") for fiscal 1989. NASAA is a national organization representing state securities administrators in each of the 50 states. Our membership has a complementary role with the Securities and Exchange Commission in regulating the securities industry. We support the Commission's budget request over all. The Commission well deserves its reputation of being among the best managed federal agencies. Today's turbulent securities markets require a determined federal regulatory commitment, and the modest increases requested by the Commission are, in our opinion, essential to maintain the integrity of our capital markets. States have been devoting more staff and dollars to securities regulation as financial products and problems have multiplied in recent years, and Congress should enable the Commission to do the same.

While we support the Commission's budget request in general, we wish to call particular attention to concerns that arise from the approach the Securities and Exchange Commission is taking to implement an operational Electronic, Data Gathering and Retrieval System ("EDGAR").

The Commission is poised to move into the acquisition phase of this important project without first resolving some key policy and cost/benefit questions raised by NASAA and representatives of private industry including the American Bar Association, the Investment Company Institute and the National Association of Securities Dealers.

NASAA agrees with the concept of a universal electronic securities registration filing system. As you know, this concept has been pilot tested by the Commission since early in 1984. Although the pilot system has demonstrated the technical feasibility of electronic filing, it has also raised serious questions about how state securities regulators will participate in an operational version of EDGAR and about the ability of the Commission to support one of EDGAR's key private industry benefits -- one stop filing.

NASAA has proposed that one stop filing be implemented by

building one integrated system that is capable of accepting and distributing federally mandated filings to the Commission and to states. The approach contemplated in the Commission's RFP seems to only funnel raw data to an unbuilt state connection and to require a parallel computer to be built to process the same information a second time before it is distributed to state agencies. We believe that the system that seems to be suggested by the RFP for EDGAR will result in needless expense to try to duplicate the Commission's EDGAR system in a separate, parallel state system. This separate system proposal defeats, in our view, the chance that a truly integrated, one stop filing system for securities registration will ever be built. We believe that the Commission proposal casts doubt on whether a one stop system can be built at all, and if it is built, whether it will work.

In the Securities and Exchange Commission Authorization Act of 1987, Congress imposed special reporting provisions on the Commission concerning further expenditures for EDGAR. The amendment adding Section 35A of the Securities Exchange Act of 1934 recognized the serious technical, legal and project management questions which EDGAR raises. This legislation required the Commission to regularly report to Congress on EDGAR project related issues and to certify to Congress the amount of projected costs, as well as that the benefits to be derived justified those costs, before entering into a contract to develop an operational system.

Since adoption of Section 35A of the Exchange Act, a Congressional letter from John D. Dingell, Chairman, Subcommittee on Oversight and Investigations, and Edward Markey, Chairman, Subcommittee on Telecommunications and Finance, Committee on Energy and Commerce, U.S. House of Representatives, has additionally asked the Commission to explicitly and thoroughly study the cost/benefit profiles of at least two system designs that would feasibly include the states. We are enclosing background materials that detail NASAA's estimates of the relative advantages of approaching one stop filing through EDGAR from the design proposed by NASAA, as opposed to that of the Commission. The attached material estimates the cost of building the state proposed system at $5.3 million, compared to a cost of $25 million under the Commission's approach. The March 2, 1988, letter from Chairmen Dingell and Markey is also attached. We believe that the Commission must resolve the questions raised in the Dingell/Markey letter about the most cost effective design for EDGAR, before the contract is let and EDGAR is built, if Section 35A is to be obeyed and if the public interest is to be best served.

It is NASAA's belief that the issue of state access to EDGAR must be resolved before the Commission is allowed to proceed with implementation of a mandatory electronic filing system. Resolution of the one stop filing issue goes right to the heart of whether EDGAR will realize its promise for streamlining the capital formation process in this country or whether EDGAR will become just another onerous federal regulatory burden that does not achieve its objectives even at enormous cost to taxpayers. In any consideration of the Commission's budget for FY '89, therefore, we urge the Committee on Appropriations and the Congress to insist on (1) completion of a thoroughgoing cost/benefit study comparing real world alternatives against standards of effectiveness and efficiency in meeting the objectives of an integrated, one stop EDGAR system, and (2) a commitment by the Commission to enter into a contract to develop an operational system only if it meets these standards for

effectiveness and efficiency.

Thank you for your consideration.

Very truly yours,

Lee Polson
General Counsel

Enclosures:

1. North American Securities Administrators Association, Inc. ("NASAA"), Corporate Staff Report on State Participation in EDGAR (January 26, 1988).

2. NASAA Update to Corporate Staff Report on State Participation in EDGAR (February 19, 1988).

3. Letter from Duane Whitt, NASAA, to John Penhollow, Director, Office of EDGAR Management, U.S. Securities and Exchange Commission (April 7, 1988).

4. Letter from John D. Dingell, Chairman, Subcommittee on Oversignt and Investigations, and Edward J. Markey, Chairman, Subcommittee on Telecommunications and Finance, Committee on Energy and Commerce, U.S. House of Representatives, to David S. Ruder, Chairman, U.S. Securities and Exchange Commission (March 2, 1988).

Corporate Staff Report and Recommendations

State Participation in EDGAR

January 26, 1988

On January 14, 1988, NASAA executives Andrew Maguire and H. Wayne Howell sent a letter to the SEC Office of EDGAR Management requesting a delay in release of a proposed amendment to the state agency section of the Request for Proposals for an Operational EDGAR System ("RFP"). The requested delay was based on NASAA's belief that the design of EDGAR, reflected in the RFP, inadequately provided for state access to EDGAR and failed to establish an electronic filing environment that could accommodate a one stop filing system. The purpose of one stop filing is to create a single, central system where securities issuers may satisfy state and federal requirements in the fewest possible steps. This report lists the concerns that led NASAA to write its January 14 letter and proposes a method to address one stop filing concerns in a timely and efficient fashion.

1. State participation is essential to the success of EDGAR.

The dual, complementary role of state and federal governments in securities regulation requires many securities to be registered for public sale with both state and federal agencies. Development of EDGAR has created a chance to improve and simplify this system with one stop filing, but we may be letting this chance pass by for failure to provide for states in the EDGAR system.

One stop filing can be achieved only with state participation. It would create an environment where the filer community may submit documents electronically to a central system for

processing by federal, state and self-regulatory organizations to satisfy applicable securities registration requirements. It should be regarded as critical to industry acceptance of EDGAR. System architecture must be defined to allow state access to necessary documents to do their job. This architecture must be defined before money is spent to develop the SEC's system. Failure to include the states in this planning stage will foreclose development of one stop filing and frustrate this justification for Congressional authorization of EDGAR. The alternative to one stop filing under EDGAR is a dual system where federal filings are made electronically and state filings in all likelihood will continue to be made on paper. This would negate any possible cost savings to industry from EDGAR. Cost savings to industry would also be negated if states could somehow build a completely separate electronic system, since the $20 million incremental cost would doubtless be passed on to industry. (See item 5, below.)

If state access to EDGAR is not designed, the SEC and EDGAR proponents must stop using one stop filing rhetoric to advance Congressional or industry support for the system.

In November 1986, the NASAA EDGAR Committee conducted a public hearing on the question of state participation in EDGAR. The Committee heard from a wide range of regulatory and industry groups all of whom indicated that there was a need for a one stop filing system for both the Securities and Exchange Commission's and state required filings as a cost saving improvement. Industry members noted significant benefits from electronic filings made in the course of the EDGAR Pilot Program and their belief that the benefits would be vastly increased if the states were participants in EDGAR.

While it is true that the Commission is granted exemption authority in Section 35A.(d)(2) of the Securities and Exchange Commission Authorization Act of 1987 (H.R. 2600), the Commission fully intends to mandate electronic filing whenever possible in order to avoid diminishing the value of the information by rendering it incomplete. If the states are not included in the mandated EDGAR System, industry will be forced to absorb the costs associated with meeting the filing requirements of any alternative system(s).

More important than any cost efficiencies created by one stop filing however, is the public interest component of greater investor protection served by the states' participation in EDGAR. For example, in the context of securities registrations, the Commission uses a system of "selective review" pursuant to which only a certain percentage of first-time Registration Statements are reviewed. In 1986 more than one-fourth of such first-time Registration Statements were not reviewed at all by the Commission. Regulatory oversight of these offerings was left entirely to the securities regulatory agencies of the states in which the securities were to be offered for sale. Of course, even in those instances where the Commission does review a Registration Statement, states have valid reasons to review offerings proposed to be made within their borders.

A mandated EDGAR System that does not accommodate the states' need for full and timely access to the Registration Statements (filed material) and documents incorporated by reference (archival material) will lessen investor protection significantly. The likelihood of sales of unfair or fraudulent securities offerings will increase dramatically.

2. State participation has not been properly addressed.

The SEC has adduced several constraints on designing an integrated system with the states' participation. Foremost is that the SEC currently lacks authority to spend money that benefits the states. NASAA believes that judgment should be withheld on whether additional budget authority would be needed

to design an integrated system until the costs and benefits of an integrated system have been weighed.

In negotiating with the states, the Office of EDGAR Management has sought as tight an interpretation of government procurement regulations as possible. For example, in January 1988, the Office of EDGAR Management felt constrained not to share proposed RFP language directly affecting state participation prior to it's effective date because of professed concern the language could be leaked to a bidder. NASAA is not a bidder. In fact, the Chair of NASAA's committee on EDGAR, with whom the language was not shared, is the Deputy Secretary of State of Georgia.

SEC legal and management staff have expressed fears that states may gain access to sensitive information and SEC internal documents. This security problem is unfounded. The states do not seek access to SEC internal analysis or its workload processing functions. Flagging and controlling access to such material is technically simple to implement. The Office of EDGAR Management has affirmed this position.

The SEC has chosen to use a functional RFP. By design such an RFP does not address specific hardware or software configurations. This makes specific negotiation difficult unless functions addressing state access are included. At this point such language is not present in the RFP beyond a Level I subscription to electronically filed data. NASAA's position is that Level I (or a direct data feed) is inadequate without direct access into EDGAR's main database as well.

3. The SEC has systematically withdrawn its commitment to state participation.

The SEC has progressively acted to reverse its earlier position regarding state access to EDGAR and the development of a state node. NASAA believes the SEC's current approach is deceptive to industry and others.

Specific instances where support has been eliminated or materially changed include:

- Citing legal constraints on its spending authority the SEC withdrew a 2.5 million dollar offer to help fund a state node.

- In November of 1987 the SEC eliminated from consideration all models for state participation with the exception of one that was completely independent of the SEC.

- In January of 1988 the SEC attempted to eliminate a free Level I dissemination service, substituting a real time data feed from EDGAR. It is unclear why the SEC is altering the RFP as it pertains to the states at this point except to possibly improve the EDGAR contractor's position.

4. Costs and benefits of including the states in an integrated EDGAR system have not been adequately considered.

A case can be made that the SEC's Office of EDGAR Management has misinterpreted the state role for industry co-regulation. Alternative low cost system architectures that would include the states have not been thoroughly investigated.

EDGAR has been internalized. The Office of EDGAR Management is attempting to deliver a product that serves only the internal needs of the SEC. NASAA's problem with this approach to designing EDGAR is that exclusion of the states in this context is arbitrary and denies us an opportunity to work out the most cost effective solution for obtaining state access.

Since November of 1987 the SEC has consistently refused to acknowledge that it is appropriate to share any system resources with the states beyond feeding them raw filing data. Nonetheless NASAA feels that shared access to the SEC EDGAR A&R database should be considered more carefully by the SEC.

The GAO was highly critical of the SEC's handling of the EDGAR project on the issue of cost/benefit analysis. It specifically challenged the SEC's projection of industry and public benefits from EDGAR. Recently the SEC contracted with the MITRE Corporation to complete a formal costs/benefit study. NASAA's position is that this report needs to assume that without state access to EDGAR, one stop filing will not be achieved. Further this report needs to be completed before a decision is made to exclude the states. It would be advantageous, in fact, if the terms of reference in the MITRE study included an analysis of federal/state options and their alternative cost/benefit profiles.

5. The SEC alternative providing the states a direct data feed is unworkable.

The SEC has offered to provide the states and SRO's a direct data feed of some electronically filed documents received by the SEC.

We assume this is being done by the SEC to satisfy its generally legislated requirement to cooperate with the states and SRO's in securities industry regulatory matters. This alternative would force the states (or industry) to fund a major computer facility unnecessarily duplicating those maintained by the SEC.

A direct feed is a neat and simple solution for the SEC, because it leaves problems of planning and implementation of one stop filing to someone else. But for the states, it is no solution at all because no means to process, store or even receive the data has been provided. None of the computer facilities needed to create one stop filing under this scenario currently exist. NASAA estimates the cost of such a major computer facility will exceed 25 million dollars over five years. Detailed costs by year for this alternative are shown in Attachment 2.

INDEPENDENT STATE EDGAR SYSTEM
FIVE YEAR COST PROJECTION

SEC EDGAR COSTS	
ADDITIONAL HARDWARE	0
ADDED OPERATING COSTS	0
SOFTWARE DEVELOPMENT	0
SEC TOTAL	0
STATE ACCOUNTING NODE COSTS	
HARDWARE & FACILITY	6,000,000
OPERATING COSTS	15,000,000
SOFTWARE DEVELOPMENT	2,000,000
STATE TOTAL	23,000,000
TELECOMMUNICATIONS COSTS	
TRANSMISSION FACILITIES	1,800,000
WORKSTATIONS	300,000
TOTAL TELECOMMUNICATIONS	2,100,000
TOTAL	25,100,000

6. The States propose to develop a low cost one stop filing system for EDGAR.

The most compelling argument that NASAA can make is to show estimated cost differentials between the alternative of sharing access to the A&R database and being forced to set up a separate EDGAR system.

The shared access approach will require the SEC to make a relatively small incremental expenditure to support an additional 100 - 200 state workstations. NASAA estimates the necessary upgrades will cost $550,000 over the first five years of EDGAR operation. Detailed costs by year for this alternative are shown in Attachment 1.

STATE ACCESS TO SEC EDGAR SYSTEM
FIVE YEAR COST PROJECTION

SEC EDGAR COSTS	
PROCESSOR UPGRADES	300,000
ADDED OPERATING COSTS	250,000
SOFTWARE DEVELOPMENT	0
SEC TOTAL	550,000
STATE ACCOUNTING NODE COSTS	
HARDWARE & FACILITY COST	500,000
OPERATING COSTS	2,500,000
SOFTWARE DEVELOPMENT	200,000
STATE TOTAL	3,200,000
TELECOMMUNICATIONS COSTS	
TRANSMISSION LINES	1,800,000
WORKSTATIONS	300,000
TOTAL TELECOMMUNICATIONS	2,100,000
TOTAL	5,850,000

Regardless of how it is funded -- can it be in anyone's interest to force the states to come up with 25 million dollars when the objectives set for EDGAR can be achieved with a half million dollar investment by the SEC plus an additional 5.3 million dollars in funding from the states? Given the second alternative NASAA submits that such a facility will not be built and industry filers will be forced to file separately with each state as they do now well into the forseeable future.

NASAA wants all concerned parties to the EDGAR process to be assured that all points of view have been addressed. To this end the Office of EDGAR Management must plan for state access and formally analyze alternative state participation models. Such an analysis needs to include feasibility, desired functions, alternative state system architectures and fully loaded cost/benefit calculations. Further they cannot be allowed to reject alternatives based on and simply because of perceived technical limitations to designing funding formulas for jointly used system elements.

If Congressional action is needed to fund any aspect of EDGAR, NASAA would like to see the SEC and NASAA jointly seek the advice of the appropriate committees.

One final objective of NASAA is to obtain formal representation on the SEC's project management committee for EDGAR development. NASAA's position is that our contribution to the process of developing EDGAR can be substantial.

NASAA believes EDGAR has the potential for great industry benefit but only if the states have affordable and effective access to all electronically filed documents at the SEC.

In an era where technologically intensive securities industry firms can coordinate electronic access to market systems on an international scale, the SEC and the states ought to be able to resolve issues now at hand regarding access to regulatory information.

DW/bb

cc: James C. Meyer
H. Wayne Howell

ATTACHMENT 1

ALTERNATIVE #1: STATE ACCESS TO SEC EDGAR SYSTEM
FIVE YEAR COST PROJECTION

		1990	1991	1992	1993	1994	5 YEAR TOTAL
SEC EDGAR COSTS							
ADDITIONAL HARDWARE	(1)	300,000	0	0	0	0	300,000
ADDED OPERATING COSTS	(2)	50,000	50,000	50,000	50,000	50,000	250,000
SOFTWARE DEVELOPMENT		0	0	0	0	0	0
SEC TOTAL		350,000	50,000	50,000	50,000	50,000	550,000
STATE ACCOUNTING NODE COSTS							
HARDWARE & FACILITY	(3)	500,000	0	0	0	0	500,000
OPERATING COST	(4)	500,000	500,000	500,000	500,000	500,000	2,500,000
SOFTWARE DEVELOPMENT	(5)	200,000	0	0	0	0	200,000
STATE TOTAL		1,000,000	500,000	500,000	500,000	500,000	3,200,000
TELECOMMUNICATIONS							
TRANSMISSION LINES	(6)	120,000	240,000	360,000	480,000	600,000	1,800,000
STATE WORKSTATIONS	(7)	60,000	60,000	60,000	60,000	60,000	300,000
TOTAL TELECOMMUNICATIONS		180,000	300,000	420,000	540,000	660,000	2,100,000
TOTAL		1,530,000	850,000	970,000	1,090,000	1,210,000	5,850,000

1. Assumes one 32 meg memory upgrade to the SEC's central EDGAR processor would allow the attachment of up to 150 limited function state workstations. Depending on the effeciency of the to be developed EDGAR software the size of upgrade required could be higher.

2. Added hardware maintenance cost is estimated to be $4,170 per month.

3. Assumes the state node will utilize a super-mini class processor ($250,000) with a limited amount of tape, DASD and other I/O devices.

4. Operating cost includes estimated staff, software, hardware and facility expense.

5. Assumes the purchase of an accounting package for $150,000 plus a limited amount of custom modification.

6. Estimated leased line charge per node including modem/csu's is $1,000 per month. Assumes 10 states per year will be brought up over the first five operational years.

7. Estimated cost of an EDGAR state workstation is $2,000 per unit to be aquired at a rate of 30 per year.

ATTACHMENT 2

ALTERNATIVE #2: INDEPENDENT STATE EDGAR SYSTEM
FIVE YEAR COST PROJECTION

		1990	1991	1992	1993	1994	5 YEAR TOTAL
SEC EDGAR COSTS							
ADDITIONAL HARDWARE		0	0	0	0	0	0
ADDED OPERATING COSTS		0	0	0	0	0	0
SOFTWARE DEVELOPMENT		0	0	0	0	0	0
SEC TOTAL		0	0	0	0	0	0
STATE ACCOUNTING MODE COSTS							
HARDWARE & FACILITY	(1)	6,000,000	0	0	0	0	6,000,000
OPERATING COST	(2)	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	15,000,000
SOFTWARE DEVELOPMENT	(3)	2,000,000	0	0	0	0	2,000,000
STATE TOTAL		11,000,000	3,000,000	3,000,000	3,000,000	3,000,000	23,000,000
TELECOMMUNICATIONS							
TRANSMISSION LINES	(4)	120,000	240,000	360,000	480,000	600,000	1,800,000
STATE WORKSTATIONS	(5)	60,000	60,000	60,000	60,000	60,000	300,000
TOTAL TELECOMMUNICATIONS		180,000	300,000	420,000	540,000	660,000	2,100,000
TOTAL		11,180,000	3,300,000	3,420,000	3,540,000	3,660,000	25,100,000

1. Includes the cost of building a conditioned computer facility, acquiring a 3090-150E class processor plus standard DASD and other I/O devices. Includes the cost of a communications processor (FEP).

2. Assumes a running rate of $250,000 per month for operations and programming staff, software lease charges, hardware maintenance and supplies.

3. Assumes the software development effort for customizing EDGAR for state use will be approximately 25 man-years.

4. Estimated leased line charge per node including modem/csu's is $1,000 per month. Assumes 10 states per year will be brought up over the first five operational years.

5. Estimated cost of an EDGAR state workstation is $2,000 per unit to be aquired at a rate of 30 per year.

February 19, 1988, Update to

Corporate Staff Report on State Participation in EDGAR

dated January 26, 1988

The SEC agreed as a result of the January 14, 1988, letter from Andrew Maguire and H. Wayne Howell, to postpone for four weeks the release of its RFP amendment about the states and to consider NASAA's arguments before making a final decision on the RFP amendment. Chairman Ruder agreed to meet with NASAA representatives on February 4, 1988, to hear our views. Before and after the meeting with Chairman Ruder, the NASAA corporate staff undertook several initiatives to advance NASAA's participation in EDGAR.

During the four week postponement, the corporate office staff met with the SEC staff on several occasions to listen to the SEC's reservations about technical and legal aspects of the NASAA proposal and to design a better and much more specific NASAA proposal for a single, integrated system for SEC and state registration processing. Legal objections by the SEC staff boiled down to fears about internal security and about Congressional authorization for any additional money needed to fund a state portion of the system. Duane Whitt developed a technical proposal which included a cost estimate for development of the state design and which proposed language amending the RFP to accomplish the state design objectives.

The corporate staff also sought to build a coalition favorable to the state proposal among private industry and Congress. The Senators and Representatives on the SEC's Congressional oversight committees have been contacted, and our corporate staff has met with several Congressional staff members. The Congressional committees have the matter under study. We have also made our views known to those involved the securities business who have an interest in an efficient, integrated system. Representatives of the Investment Company Institute, American Bar Association, NASD, American Stock Exchange and New York Stock Exchange were contacted. The Investment Company Institute has supported the NASAA effort with a letter to the SEC. Both the ICI and ABA indicated that they intend to discuss EDGAR and indicate their support for the NASAA position at the 19c hearing on February 26, 1988. NASD President Joe Hardiman expressed his concern about state participation in EDGAR during a meeting between Hardiman and Ruder on February 10, 1988. The exchanges have not committed to take any action.

NASAA's plan is to create a shared system for access to the registration filings made at the SEC. The SEC's system for registration processing contains two elements: a registration review system and a workload management system. NASAA has asked for on-line access to the registration files, using the SEC system as a joint registration library. We are asking for access only to the registration review functions, not to the internal files of the SEC or to their workload processing system. NASAA would be responsible for separately funding and developing its communications network, plus a small data processing system to handle fee accounting. Because NASAA asks for only limited access to the SEC review system, little additional software development cost would be incurred by the SEC. Their additional costs would be for extra memory and processing capacity to handle the additional state workstations.

NASAA estimates the cost of a shared system at $5 million for the states and $500,000 for the SEC, in addition to the current EDGAR development cost. We also believe that because our proposal requires a minimum of changes in the EDGAR system programming and is basically a memory upgrade, it can be built with a minimum delay in the bid process.

Our estimate of the cost to NASAA of developing a separate, parallel system to duplicate the registration filing, storage and analysis functions independently is about $25 million, which we believe to be prohibitive.

On February 4, 1988, Jim Meyer, H. Wayne Howell, Andrew Maguire, Duane Whitt and Lee Polson met with SEC Chairman David Ruder, Commissioner Aluana Peters, John Penhollow and Linda Fienberg. We expressed our view that the shared approach developed by NASAA constituted the most efficient use of resources and could be developed with a minimum of changes to the SEC's development plans and timetable. The staff of the SEC responded that the parallel systems proposed by the SEC were not necessarily prohibitively expensive, that our cost projections for the NASAA approach were too low, and that the NASAA proposals might cause delays in awarding the contract that could endanger the whole EDGAR project. At that meeting, we requested that the cost/benefit study which has been recently begun by the Mitre Corporation include a comparison of the costs and benefits of the SEC's parallel approach versus the NASAA shared system. Section 35A(c) of the Exchange Act requires the SEC to certify that EDGAR's benefits justify its costs before the SEC may award the EDGAR contract.

On February 12, 1988, Chairman Ruder responded with the attached letter to Jim Meyer. The Chairman concluded that the danger of further delays in EDGAR was too great to alter the RFP as we had requested. Further, the Commission declined to include in their cost/benefit analysis a comparison of the shared vs. parallel approach. The Chairman indicated that the currently contemplated system could be modified as we suggested after EDGAR has been built. The SEC is willing to initiate a study of its own of the comparative benefits the two approaches, within 18 months after contract award.

The corporate office staff is continuing to seek a change in the SEC's EDGAR design by contacting the Congressional oversight committees and by explaining the benefits of our approach to interested industry groups. We believe that this project must have the higest priority for NASAA in the coming months. Otherwise, the states may find themselves left out of EDGAR development, which we believe would foreclose a one stop filing system and would cause unnecessary costs to not only the NASAA membership but also to the filing community who is being asked to pay huge compliance costs for what is turning out to be simply an internal SEC data processing system.

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

NASAA

555 New Jersey Avenue, N.W., Suite 750
Washington, D.C. 20001
202/737-0900

April 7, 1988

Mr. John Penhollow
Securities and Exchange Commission
450 5th Street, N.W.
11th Floor, Room 10194
Washington, D.C. 20549

Dear John:

I appreciated the opportunity to meet with you last Thursday. This letter is being sent to you because I have some concerns about the approach the Commission appears to be taking in developing a response to the March 2 letter from Congressmen Dingell and Markey.

The Commission has been asked by NASAA, industry representatives and now formally by Congress to explicitly and thoroughly study the cost/benefit profiles of at least two system designs that would feasibly include the states. Upon completion of this study, the next logical step would be to jointly develop a plan that would, with a high degree of certainty, permit one stop filing to be achieved.

My understanding of the Commission's planned response to Congress is that you intend to initiate a separate study with the MITRE Corporation to project the cost of state inclusion using pilot project performance data. This approach is to be cast as a "best effort" look at the problem of adding the states into an operational EDGAR. Further, the Commission does not intend to change the terms of reference of the current MITRE benefit study now underway, to comprehensively examine the relative costs and benefits of a shared or parallel system as we have proposed and Chairmen Dingell and Markey have requested.

If my understanding is correct, your effort will fall short of the stated objective of comparing the cost-effectiveness of alternative approaches to one-stop filing. The process you described does not address the cost/benefit questions in a comprehensive manner, nor can I see how it will accurately project costs of either alternative. My concerns with your approach are based on the following more specific observations:

- System architectures on which costs can be reliably calculated are not now known for either alternative;

- Cost projections for state access based on pilot project system performance data could be very misleading;

- The appropriate level of state terminal function and data access have not been agreed and have generally been characterized by the Commission as far more demanding than what we have actually requested;

- The quantitative benefits to be derived from state participation may not be accurately measured by the current MITRE benefit study because assumptions about the ability of the states to participate according to current Commission plans may not be valid;

- A schedule for phasing the states into an operational EDGAR environment has not, to my knowledge, been contemplated by the Commission, despite its obvious mitigation of projected costs.

I hope these observations are helpful to you. As always, I look forward to working with you to resolve the issues at hand.

Sincerely,

Duane Whitt

Duane Whitt

U.S. House of Representatives
Committee on Energy and Commerce
Room 2125, Rayburn House Office Building
Washington, DC 20515

March 2, 1988

The Honorable David S. Ruder
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Chairman Ruder:

The Subcommittee on Telecommunications and Finance, the Subcommittee on Oversight and Investigations, and the Committee on Energy and Commerce have, as you know, monitored EDGAR closely because of past concerns about major technical and policy problems. It is our goal, as it is yours, that the EDGAR program be cost justified, useful and soundly managed.

We remain concerned, however, about access of the states to EDGAR. The recent exchange of correspondence between the Commission and the North American Securities Administrators Association (NASAA), as well as several self-regulatory organization representatives, raises the serious possibility that the goal of one-stop filing -- creating a single, central system where securities issuers may satisfy federal and state requirements simultaneously -- may not be realized. In particular, recommendations furnished to the Commission and the Committee by NASAA concerning the participation of the states in the EDGAR system raise, in our view, the most serious questions about whether the current Request for Proposals (RFP) provides for an EDGAR system that will serve only the internal needs of the Commission, leaving a situation in which issuers must continue to file on paper with the states, as they do today.

One-stop filing was identified by the Commission during the 1986 GAO audit as a major qualitative benefit that would offset at least in part the fact that the quantitative costs of EDGAR outweigh quantitative benefits by a ratio of more than two-to-one. NASAA and interested members of the filing community have raised major questions with the Commission and the Committee about (1) whether one-stop filing will be achieved at all, and (2) possibly substantial differences in cost-effectiveness of alternative approaches to one-stop filing. It is important to resolve these and related policy issues. In our view, this requires the assistance of a comprehensive cost/benefit study that specifically and explicitly addresses issues related to one-stop filing -- a study that ought to be completed at the earliest possible time.

The Committee wishes to remind the Commission that no contract for EDGAR may, under the law, be let until the Commission has complied fully with Congressional requirements. Under Section 35A (b) and (c) of the Securities Exchange Act of 1934, these requirements include written reports on EDGAR's progress to be filed every six months and a determination that the benefits of the EDGAR system justify the total costs of the system, after an analysis of EDGAR's quantitative and qualitative benefits.

To date, no written report has been received, although the first report was due by December 31, 1987; and no thorough cost/benefit analysis of quantitative and qualitative benefits of EDGAR has been provided.

We are mindful that the Commission is anxious to move the EDGAR project forward as rapidly as possible. In view of all of the above, however, we are surprised that the Commission has declined to incorporate into its recently initiated MITRE Corporation cost/benefit study a requirement for analysis of the costs and benefits to all participants of alternative approaches to one-stop filing. Specifically, we ask that the Commission rethink this issue and modify the terms of reference of the MITRE study to provide explicitly for analysis of comparative cost-effectiveness of the shared access proposal desired by the states and the filing community, and of the SEC's parallel systems approach. Given the interests and the potential costs involved, and the question of whether EDGAR will in fact accomplish one of its major goals, in the Committee's view it is important that this remaining policy issue regarding EDGAR's development be resolved in the next few months rather than two years or more from now when costs will have increased and options may be more limited.

In this regard, we remind you that all parties appearing at the public hearing on February 27, 1988 to comment on the upcoming 19(c) uniformity conference between NASAA and the SEC strongly supported the concept of one-stop filing, and that one witness, Mary K. Bellamy of the Investment Company Institute, went so far as to testify that she believed if her members were required to choose between electronic filing on the federal or state level, they would choose the state filing system as the greater benefit.

F. Lee Liebolt, Jr., Chairman of the American Bar Association State Regulation of Securities Committee, in written comments for the same hearing dated February 24, 1988 and addressed to Jonathan Katz, Secretary of the Commission, stated:

> We also believe that such a system should be coordinated with the states through a one-stop filing mechanism whereby any necessary state registration will be filed concurrently with the federal filing....At last year's hearings on the 19(c) conference, we reiterated our belief that the SEC should not lose sight of the goal of having an electronic filing and retrieval system with the states included in such a system. Since then it has become apparent, through Amendment No. 13 to the SEC's request for proposals and otherwise, that state interface with EDGAR has been materially redefined. Regardless of whether a 'distributed' system or an 'integrated' system is proposed and what the respective estimated cost of one is over the other, we cannot believe that the benefit of EDGAR to the securities industry is going to be enhanced by leaving state participation to some later undefined point in time.

The Committee appreciates the management improvements that you and the Commission have initiated in the EDGAR program since EDGAR's authorizing statute was drafted and signed into law in 1987, but we remain committed to an EDGAR system which is cost justified and maximally useful. If there are any residual questions of authority with respect to designing an operational EDGAR system that will be cost-effective, efficient and as useful as possible to the filing community and to federal and state regulators, the Committee is prepared to address these questions in consultation with the Commission in a timely manner.

Thank you for your consideration of our views. We would appreciate a response at your earliest convenience.

Sincerely,

JOHN D. DINGELL
CHAIRMAN
Subcommittee on Oversight
and Investigations

EDWARD J. MARKEY
CHAIRMAN
Subcommittee on
Telecommunications and
Finance

NAMTAC

Statement of

Roy Thompson

President

National Association of Management
and Technical Assistance Centers

NAMTAC

The National Association of Management and Technical Assistance Centers (NAMTAC) is an associa ion of university affiliated centers that provide management and technical assistance to businesses and communities in behalf of economic development and industrial competitiveness. Our membership includes centers that provide assistance to businesses and communities by showing how NASA technology can be used for non-space activities as well as small business development centers, trade adjustment assistance centers, economic development centers, and centers that specialize in serving small rural and minority communities.

Some of our members receive grants from NASA, others from SBA, the International Trade Administration (ITA), and the Economic Development Administration (EDA). And some receive no Federal assistance at all. Our membership is as diverse as the Nation itself, and the programs of our members reflect that diversity. But all of our members share a common goal.

That goal is to further the transfer of knowledge and information through institutions of higher education for practical application on behalf of industrial competitiveness and economic development.

My own State of Florida is a good example of how we utilize the many programs you in the Congress have authorized and funded, and how we tie them together in a network of service to Florida's communities and businesses. I am the director of the Florida Economic Development Center at Florida State University, which is funded in part by a grant from EDA. One of our programs of which I am particularly proud provides interns to small Florida communities to carry out a variety of economic development projects and studies which the communities do not have the resources to do by themselves.

This not only helps the communities, but gives our graduate students practical economic development experience. I am also the director of the Florida Small Business Development Center at Florida State University. In addition to providing practical help to small businesses on specific problems, I write a column for small businesses that appears in 25 Florida newspapers. We also run seminars for small

businesses that deal with a variety of the day-to-day problems that small businesses face.

We work closely, through a State-wide system with the Southern Technical Applications Center that receives partial funding from NASA and whose headquarters are located at the University of Florida. The Southern Technical Applications Center is linked not only to many campuses within the State of Florida where it is involved in helping to establish research parks and business innovation centers, but also to other States in the Southeast. For instance, it works closely with the State Board for Technical and Comprehensive Education of the State of South Carolina.

And just as we in Florida reach out to provide services to institutions in other States, so, too, do we receive services from other States. For example, we work closely with the Southeastern Trade Adjustment Assistance Center of the Georgia Institute of Technology. This center operates under a grant from the International Trade Administration (ITA).

I cite these interrelationships because those who are not thoroughly familiar with how these programs interact often mistakenly believe that they compete with each other, and are somehow wasteful of scarce resources. Rather than being in competition with each other, these variously-funded centers have formed networks that complement and reinforce each other's services. Their diversity is a source of strength, and they are making an important contribution to the nation's industrial competitiveness.

Unfortunately, the Administration does not seem to share the Congressional insight into the importance of these programs. Thus, it will be up to Congress, and particularly this subcommittee to make sure that:

1. Appropriations for the Small Business Administration include at least $40,000,000 for Small Business Development Centers, which is the sum appropriated last year;

2. The Economic Development Administration remains in existence and its University Center program is continued at last year's level of $5,000,000; and

3. The International Trade Administration appropriation has at least $16 million earmarked for the continuation of the trade adjustment assistance program.

Study after study has documented the degree to which the economic growth of this country depends on the small business sector. This subcommittee has recognized the importance of small businesses and the contribution made to small business productivity by the small business development centers. This is certainly not the time to draw back from our commitment to the small business community by reducing funds for SBDC's.

The Economic Development Administration, although it is a relatively small agency, has helped many communities in every State of the Union. Many academics and many of ideologues in the Administration simply don't understand what EDA has meant to the economic development of depressed communities. Fortunately, the Congress stays in closer touch

with the people and understands how useful EDA has been. That is why the Congress, on a bipartisan basis, has consistently refunded EDA in spite of Administration opposition. We ask your continued support once again this year.

Within the EDA appropriation, Congress has in the past earmarked funds of $5,000,000 for EDA University Centers, and we ask your continued support for these centers again this year. To give you some idea of the kinds of good work these EDA University Centers accomplish, I am attaching to this statement a press release announcing the ten winners of the 1987 NAMTAC Project-of-the-Year awards. All of these winners were EDA centers. Note that the projects cited run the gamut from helping to establish a state-of-the-art manufacturing facility in Wisconsin to helping a local businessman and his wife secure the funds to open a community grocery store in a small community in South Carolina where there was no other grocery within 17 miles. These kinds of services are much too important to abandon.

In this respect, we also ask the committee to direct EDA to abandon its ill-advised effort to "graduate" certain of the centers that have been funded for a number of years by gradually reducing their grants until they get down to zero. Last year, the Congress directed the EDA Assistant Secretary to defer this program until fiscal year 1989. As this testimony was prepared, the EDA Assistant Secretary has not given any indication of his willingness to accept the Congressional direction. The EDA grant for my own center, which was due on January 1, has not yet been received, and I have been directed to apply for 80% of the amount previously granted for our center. This delay in funding has caused an operational crisis within the center as members of my staff are faced with an uncertain future. I submit that this is not an appropriate way to run a program. I hope that this committee will not sit idly by while an Assistant Secretary is in open defiance of its direction, and I further hope that this subcommittee will settle the matter once and for all in the fiscal 1989 appropriation bill by inserting language in the bill, itself, which would prevent the Assistant Secretary from carrying out the so-called graduation policy.

We in NAMTAC do not doubt the Assistant Secretary's sincerity in establishing the graduation policy. And the case he makes for it has surface plausibility. But what the Assistant Secretary does not understand is the fact that the University Center program is not a grant program designed to benefit universities, but a program to enlist their skills and resources on behalf of economic development. Thus, the selection of universities should not be made on the basis of whose turn it is to get Federal funds, but of which institution can best help EDA carry out its mission of economic development. If some universities that are presently receiving funds are not as capable of doing the job as others that are not receiving funds, then we think that EDA would be justified in cancelling their grants and giving them to other more capable institutions. And in fact, EDA does precisely this. Throughout the history of the University Center program, EDA has dropped institutions from the program and brought new institutions in. That is the right way to manage the program, not to set some arbitrary rule that drops an institution from the program after a

number of years no matter how good a job its is doing. I know of no similar Federal program that seeks to operate on such an arbitrary manner, and I hope and trust that this subcommittee will, in the legislation it is putting together, put a stop once and for all to the Assistant Secretary's ill-advised policy.

We also ask the subcommittee to continue its support for the trade adjustment assistance program by providing $16,000,000 within the International Trade Administration appropriation for trade adjustment assistance, and particularly for continued operation of trade adjustment assistance centers. These centers have had a rough time of it over the past few years due to gross mismanagement by the Department. It now appears that there is stronger management in place and the centers have an opportunity to resume their valuable work. I would like to point out that the Office of Technology Assessment published its study of trade adjustment assistance last year. Among its conclusions is the following statement: "Evidence from a few firms strongly suggests that a few successes a year, resulting in higher income and property tax receipts from the jobs and firms saved, can more than repay the costs of the program." We agree, and we urge this subcommittee to see to it that this modest but useful response to the threat of imports not be abandoned.

What all this is about is the effort to make America number one again. We are all involved in an effort to help sharpen the skills of the country's entrepreneurs by giving them support and assistance. These programs are not giveaways, but they are designed to make our capitalistic free enterprise system function more effectively. Now more than ever we need to nourish and strengthen our businesspersons. Now more than ever we need to see to it that the knowledge that is resident in our educational institutions is placed at the service of our economic community. Now more than ever we need the Congress to say "No" to short-sighted budget cutters who would jeopardize years of valuable institution-building. We need to support our SBDC's, our trade adjustment assistance centers, and our EDA university centers.

This subcommittee has provided valuable support for these programs in the past. We look forward to your continued support in the coming fiscal year.

NAMTAC ANNOUNCES WINNERS OF 1987 PROJECT OF THE YEAR AWARDS

Patty Martillaro, president of the National Association of Management and Technical Assistance Centers (NAMTAC), tonight announced the winners of the NAMTAC Project of the Year Awards for 1987. Nine awards were presented; three in the technical assistance category; three in the management assistance category; two in the economic development assistance category; and one special award.

First place winners were: Economic and Technical Assistance Center, University of Wisconsin-Stout (technical assistance); EDA University Center, Georgia Institute of Technology (management assistance); and Florida Economic Development Center, Florida State University (economic development

assistance). The special award went to the Economic Development and Technical Assistance Center of Benedict College, South Carolina.

Second place winners were: Center for Urban Economic Development/Technology Commercialization Program, University of Illinois at Chicago (technical assistance); Niagara Frontier Economic Development and Technical Assistance Center, Niagara County Community College, New York (management assistance); and Center for Improving Mountain Living, Western Carolina University (economic development).

Third place winners were: EDA University Center, Georgia Institute of Technology (technical assistance); and EDA University Center at IUPUI, Indianapolis Center for Advanced Research, Inc., (management assistance). The judges did not choose to select a third place winner in the economic development category.

This was the second time the Florida Economic Development Center won a first place award in the economic development assistance category. Its previous win was in 1985. It also took a second place prize in the technical assistance category that year. Its award this year was for a program that provided intensive economic development training to graduate student interns who were then placed in communities to carry out specific economic development projects. The center's director is Roy Thompson.

The EDA University Center of Indiana University/Purdue University at Indianapolis (IUPUI), which is affiliated with the Indianapolis Center for Advanced Research, Inc., was awarded third place in the management assistance category for its help to a minority-owned trucking firm that not only enabled the firm to improve its efficiency, but also got it started on the way to establishing a new facility for the manufacture of precision parts. The center's director is Dr. F. Timothy Janis.

The competition was supervised by NAMTAC Board member, Alice A. Lusk, Assistant Director for Business Services of the Mississippi Research and Development Center. She was assisted in the judging by Dr. H. Leroy Marlow, Director of the Pennsylvania Technical Assistance Program of Pennsylvania State University; Dr. David H. Swanson, Director of the Center for Industrial Research and Services of Iowa State University; and Morrison Woods, Assistant Director of the Center for Economic Development of the University of Texas at San Antonio. All of the judges represented centers that were winners in last year's competition.

All of the winning centers receive award plaques that were presented at the NAMTAC annual dinner on October 15, at Alexandria, Virginia.

SEARCH GROUP Inc.

April 20, 1988

Honorable Ernest F. Hollings
Chairman
Subcommittee on Commerce, Justice,
State, the Judiciary and Related
Agencies
Senate Committee on Appropriations
Room S-146, the Capitol
Washington, D.C. 20510-6025

Dear Chairman Hollings:

SEARCH Group, Inc. is pleased to file this testimony in connection with the Subcommittee's hearings on Appropriations for the Departments of Commerce, Justice, State and the Judiciary and related agencies for the fiscal year ending September 30, 1989, and for other purposes.1/ On behalf of SEARCH and the thousands of criminal justice officials responsible for the nation's criminal justice information systems, I want to commend you, Mr. Chairman, and the members of your Subcommittee and the Subcommittee's excellent staff for your support over many years for criminal justice, in general, and state and local justice assistance in particular.

INTRODUCTION

Our testimony concerns a small but critical part of your appropriations legislation. Sections 403(a)(12) and 501(a)(3), of the Omnibus Crime Control and Safe Streets Act, as amended, 42 U.S.C. Sections 3743(a)(12) and 3761(a)(3) authorize the Bureau of Justice Assistance ("BJA") in the Department of Justice to make grants to state and local government agencies and private not-for-profit organizations for the purpose of providing for operational information systems which improve the effectiveness of criminal justice agencies. In FY '87 BJA provided block and discretionary grants to state and local criminal justice agencies and not-for-profit organizations with respect to criminal justice information systems in amounts totalling approximately 4 million dollars. In FY '88 BJA's total justice assistance appropriation was slashed from 44 million dollars to 8 million dollars. BJA's information systems budget received an even deeper cut. It sank

1/ SEARCH Group, Inc., the National Consortium for Justice Information and Statistics, is a private, not-for-profit corporation chartered by the states to provide technical, educational and policy support to state and local criminal justice agencies with regard to criminal justice information systems, information policy, and criminal justice statistics. SEARCH is governed by a Membership Group consisting of governor-appointed senior officials from all fifty states. SEARCH obtains funding from state dues, from contracts with numerous state and local criminal justice agencies, from private foundation grants and from grants and cooperative agreements from Federal agencies including the Bureau of Justice Statistics and the Bureau of Justice Assistance.

from the approximate 4 million dollar level in FY '87 to a token amount of approximately 200,000 dollars in FY '88.

SEARCH believes that it is vitally important that the Congress restore a significant level of Federal funding for criminal justice information systems. Failing that, it is our fear that the compatibility and productivity of the nation's criminal justice information systems will be impaired.

CRIMINAL JUSTICE INFORMATION SYSTEMS

Criminal justice information systems include local and state systems, many of which are now automated, containing records of individuals' arrests and related dispositions; records identifying wanted persons and stolen vehicles, boats, guns and other valuable commodities; records about individuals who are under investigation for a particular crime or who are suspected of involvement in a pattern of crimes; fingerprint records and related biographical data about individuals; records identifying individuals who are currently in the criminal justice systems and which assist in the system's processing of those individuals; and various kinds of statistical and aggregate data about offenders and criminal events.

It is difficult to overstate the contribution that information systems make to criminal justice. These systems assist law enforcement officials by providing information necessary for the efficient and effective allocation of law enforcement manpower. These systems further assist law enforcement officials in apprehending offenders through the matching of latent (crime scene) fingerprints with fingerprints on file in data bases and through the use of investigative and criminal history data to identify likely offenders. These systems assist local officials charged with managing our nation's increasingly overcrowded jails. These systems assist prosecutors by facilitating the concentration of resources on career offenders and other types of high-risk offenders. These systems assist the courts by providing judges with information about offenders' prior criminal records thereby improving sentencing decisions. Finally, these systems assist corrections officials in making treatment and parole decisions.

What all of these systems have in common is that they facilitate the collection, maintenance and, most importantly, the sharing of criminal justice information. Without information technology, the effective sharing of criminal justice information among federal, state and local officials across all components of the criminal justice system -- law enforcement, prosecution, courts and corrections -- would be impossible. And, without such sharing these agencies simply cannot accomplish their vital mission.

Increasingly, these systems also play a vital role in non-criminal justice decisionmaking. Criminal justice information, for example, is relevant to decisions for the award of security clearances or assignment to sensitive national security duties; for licensing decisions for everything from fire arm permits to licenses to operate retail liquor establishments; and for a variety of private sector employment determinations, such as background checks for positions involving child care.

FEDERAL LEADERSHIP AND SUPPORT

Federal leadership and support makes an appropriate, indeed,

an indispensable contribution to the nation's criminal justice information systems. It is beyond contention that recidivism rates are high and that offenders often move across state lines. Both of these phenomena make it imperative that the nation's criminal justice information systems permit criminal justice officials to exchange criminal justice information quickly, reliably and effectively. These capabilities cannot be achieved without a national criminal justice information systems program.

- Federal leadership and support is necessary to provide technical assistance and training in support of the nation's criminal justice information systems. A national technical assistance and training program permits lessons learned in one jurisdiction to be transferred to other jurisdictions, and promotes compatibility among criminal justice information systems.

- Federal leadership and support is necessary to assure that systems use compatible protocols, terminology, data categories and other compatible elements so as to promote effective communication. In the absence of Federal support and leadership, the nation's criminal justice information systems run the risk of being "Balkanized."

- Federal leadership and support is necessary for state-of-the-art software development. In the absence of Federal support, state and local governments and the private sector are often unwilling to underwrite the cost of developing software because the risks of failure are too great and the market rewards are too uncertain.

- Federal leadership and support is necessary to develop national prototype software systems and to demonstrate these systems. In the absence of Federal support, State and local agencies are left to reinvent the wheel.

- Federal leadership and support is necessary to assist the nation's criminal justice information systems to produce compatible and useful statistical and other aggregate information so that a composite picture of the nation's crime problem and the criminal justice response to that problem can be obtained.

For these reasons, the Federal government for twenty years has been deeply committed to supporting criminal justice information systems. Beginning in the 1968 Omnibus Crime Control and Safe Streets Act the Federal government, primarily through the Law Enforcement Assistance Administration, in partnership with State and local criminal justice agencies, provided financial support and leadership for the development and implementation of automated information systems. After LEAA's demise, both the Congress and the Executive recognized the need for a continued federal commitment to criminal justice information systems.

The report of the Senate Judiciary Committee to accompany S.951, the Department of Justice Authorization Act for FY-82 stated, ". . . the Committee is concerned that state-based criminal justice information systems, information policy development, and statistical programs continue to be supported by

the department." Just the year before, the Attorney General's Task Force on Crime recommended that additional resources should be made available to fund "the design and development of state and local statistical information systems." Not surprisingly, in 1984, when the Congress adopted the Comprehensive Crime Control Act, Pub. L. 98-473, the Congress established the BJA and authorized the BJA to provide support for state and local criminal justice agencies with respect to 18 priority program areas. One of those priority areas (Program Area 12) authorized assistance for state and local criminal justice information systems.

BJA'S INFORMATION SYSTEMS PROGRAMS

Over its brief life, BJA has provided substantial support and leadership for state and local criminal justice information systems. In all, BJA has devoted approximately 10 percent of its annual appropriations to support of criminal justice information systems. Only two of the other 17 priority areas have received more support.2/

BJA's commitment to state and local criminal justice information systems has made a difference. Examples of information systems supported by BJA include the following.

- The Department of Corrections and the State Prosecutor's Office in Arkansas used BJA grant money to develop automated information support systems.

- The Arizona Department of Corrections used BJA grant money to develop a prosecution management system and the Pima County Sheriff's Department used BJA's grant funds in support of an automated burglary data system.

- In South Carolina, the Department of Corrections used BJA grant funds to implement a corrections information system, and the Governor's office received a BJA grant to establish a policy and data analysis criminal justice information system.

- In Iowa, the Polk County Attorney's Office received a grant to implement a prosecution management information system and the Iowa State Court Administrator's Office received a grant to help establish a judicial information system.

- The Kentucky State Police received a grant to automate their manual fingerprint records so that these records could be searched and retrieved on an automated basis, thereby, saving many thousands of dollars per year in search and retrieval costs and, thereby, assisting Kentucky to join many other states that have established automated fingerprint information systems.

2/ BJA's emphasis on information systems is not merely a reflection of the importance of information systems programs to state and local agencies. Information systems provide multi-jurisdictional services and, therefore, require multi-jurisdictional policies and direction. This is much less true of a number other BJA program areas such as, combatting arson (program area 3) or crimes against the elderly (program area 16).

- The Sheriff's Department in Sarpy County, Michigan received a grant to develop a criminal justice information management system.

- The Massachusetts State Police used BJA grant funds of over $3 million to establish the New England State Police Information Network (NESPIN).

- Augusta, Georgia received a grant to establish a computer aided suspect identification system.

- The West Fargo North Dakota Police Department received a grant to establish a law enforcement records system.

- The Tallahassee, Florida Police Department received a grant to establish a violent crime apprehension system.

- In New Hampshire, the Strafford County Attorney's Office used BJA grant funds to establish a Prosection Management Support System.

- The Honolulu, Hawaii Police Department received a grant to help develop a juvenile justice information system.

- The Oregon State Police used a BJA grant to develop a computerized incident tracking system.

- The Danbury, Connecticut Police Department received BJA funds for a criminal justice information system.

During the years FY '85 through FY '87, BJA's information system block grants were made to all components of the criminal justice system in approximately the following percentages:

- Criminal history or investigative law enforcement systems . . . . 43 percent.

- Prosecution management systems . . . . 22 percent.

- Comprehensive criminal justice information systems. . . . 18 percent.

- Jail or other correctional information systems . . . . 9 percent.

- Court disposition and docketing systems . . . . 8 percent.

SEARCH AND BJA'S INFORMATION SYSTEMS PARTNERSHIP

SEARCH, through BJA funding, has devoted considerable effort in support of operational information systems. For example, through BJA funding, SEARCH has designed a public domain, state-of-the-art prosecutors' management support system for small and medium sized prosecutorial agencies that can operate in a variety of micro-computer environments. In addition, through BJA funding, SEARCH provides on-site technical assistance for state and local criminal justice information systems. This assistance may include, for example, an analysis of software and hardware requirements, cost benefit analyses, systems specification designs or software transfer assistance. Further, through BJA

funding, SEARCH provides state and local criminal justice officials with operationally oriented training. Current SEARCH offerings include a course entitled "Using Computers in Law Enforcement".

Moreover, SEARCH operates a National Criminal Justice Computer Laboratory and Training Center at SEARCH headquarters in Sacramento, California. The Laboratory and Training Center is configured with 24 networked micro-computers and a mini-computer. The great bulk of this hardware was donated to SEARCH by private sector firms. The Training Center is also supported by a library of software applications and other technical support materials. Through support from BJA, SEARCH and the Criminal Justice Statistics Association are establishing a comparable computer laboratory and training center in Washington D.C. to serve criminal justice agencies on the East Coast. Through these training centers, SEARCH is able to provide educational and training support with respect to the operation of automated information systems to literally hundreds of criminal justice officials each year.

CONCLUSION

In only a few short years, BJA has provided critical leadership and assistance to state and local criminal justice agencies with respect to criminal justice information systems. But for BJA's leadership and assistance, state and local information systems, simply stated, would not operate as effectively; or in a manner that takes full advantage of national research and experience; or in a manner that facilitates the effective and appropriate national exchange of information.

Mr. Chairman, SEARCH recognizes that finding adequate funding for all of the programs under your Subcommittee's jurisdiction is an increasingly difficult and near impossible task. However, in FY '88 BJA's information systems funding suffered an effective cut-back of approximately 95 percent. A cut-back of this dimension is unwarranted in view of the importance and the success of this program. Indeed, we believe that BJA has no more important mission and -- in view of the multi-jurisdictional and national characteristics of criminal justice information systems -- no more appropriate mission than information systems support.

On behalf of SEARCH, its 50 Gubernational appointees, and the thousands of State and local criminal justice information practitioners who comprise the SEARCH family, we wish to thank you for this opportunity to describe BJA's critical information systems mission and its accomplishments. Naturally, if you or your staff wish to discuss this matter with us or any of our members, please do not hesitate to contact me.

Sincerely,

Gary R. Cooper

Gary R. Cooper

NADO

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
400 North Capitol Street, N.W., Suite 372, Washington, D.C. 20001 202-624-7806

Testimony of:

MICHAEL AUBE

President of the

Eastern Maine Development Corporation

Bangor, Maine

On Behalf of The

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

On behalf of the members of the National Association of Development Organizations (NADO), I wish to submit for the record the following testimony regarding the decisions before the subcommittee in appropriating funds for Fiscal Year 1989. Mr. Chairman and Senator Rudman, our members are aware of the leadership you are providing toward a better understanding of the needs of rural communities. We are pleased to take this opportunity to comment on the challenges facing rural America and particularly the financial needs of programs which promote economic development and diversification throughout our great nation.

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

NADO was founded in 1967 by a group of economic development districts to encourage the creation and retention of jobs in rural and small metropolitan areas. Today our members are multi-county planning and development organizations, as well as other state and local agencies, which help local governments and the private sector work together on business, community, economic and rural development programs. With a small Washington staff and a strong grassroots network NADO carries out a number of information, training and service functions.

NADO members serve rural and small metropolitan areas across the country. In the areas where our members work, they are concerned about the economic well-being of a substate region rather than a single jurisdiction. For many communities, these development district staffs provide the only professional assistance to governments, businesses and citizens in the field of economic development. By working cooperatively through development districts, local governments and the private sector can maintain and create jobs with a minimum of interference from Washington and maximum local participation. Development districts have become an essential part of the "institutional infrastructure" in much of rural America.

For small metropolitan and rural communities, the Economic Development Administration (EDA), Appalachian Regional Commission (ARC), Farmers Home Administration (FmHA), and Small Business Administration (SBA) are the federal programs which have been of the greatest value. Since both EDA and SBA appropriations are the responsibility of this committee, we will focus our testimony on these programs.

CONTINUING PROBLEMS IN THE RURAL ECONOMY

The general economic recovery of the past several years has bypassed many rural areas. In each region of the country the metropolitan areas are outperforming

the rural areas. A recent report issued by the Appalachian Regional Commission highlights the continuing distress of most rural areas, even when neighboring urban counties enjoy propsperity.

Some of the findings reported in the study include:

* "The economy of rural America is based primarily on non-agricultural employment." In rural counties there is a greater dependency on manufacturing than agriculture, and even a majority of farm families depend heavily on non-farm jobs for their livelihood.

* "Unemployment in rural America remains consistently higher than the national average." After an unprecedented period of economic growth, official national unemployment figures have fallen dramatically to 5.6 percent. In rural counties, however, unemployment is officially over 9 percent. Too often in the collection of data, the part-time, seasonal, or agricultural employment of many rural citizens is overemphasized, and underemployment of large numbers of rural people is not discussed.

* "Poverty has remained consistently higher than the national average." While one-fourth of the nation's people reside in rural America, 38 percent of the nation's poor live there. In urban areas the poverty rate hovers around 12 percent but in rural areas it exceeds 18 percent.

* "Outmigration is increasing again after it had reversed itself in the 1970s." Rural areas are losing population at record-setting rates, and in many instances it is the young adults -- the brightest and the best -- who leave to find reliable employment.

For NADO members from Maine to Mississippi these statistics and generalizations become real individuals, businesses, families, and communities in their regions. Facing these hard realities, the professional staff of development districts works with local elected officials, private sector entrepreneurs and non-profit instutitions to enable local communities to create employment and enhance their quality of life.

The report Rural Economic Development in the 1980s by the Economic Research Service (ERS) of USDA discusses many of the other barriers to rural economic development. Such problems include transportation, lack of health care, lower educational attainment, unavailability of investment capital, and inability to compete in the expanding service sector.

Rural workers usually travel farther to their jobs and normally without the benefit of public transportation. With deregulation has come the decline or loss of airline service to many small cities. Rural highways have received less federal funding in this decade. The loss of revenue sharing and the declining value of tax roles have meant that local governments are less able to maintain or improve infrastructure such as roads and bridges.

Recent years have also witnessed the disappearance of many hospitals in rural counties. Hospitals are not only a source of health care but also a major employer and a key factor in attracting new business to an area. The high rate of rural poverty and the numbers of uninsured workers add to the fiscal dilemmas of rural hospitals. Finally, insufficient medical manpower is a serious concern for many small city and rural areas.

The level of educational attainment in some rural parts of America is significantly lower than in urban areas. Particularly in the rural South, there is a high rate of high school drop-outs and fewer college educated adults. For new enterprises to develop in any area, the level of education and adaptability of the labor force is a key factor. Thus, a more educated and versatile group of potential workers may attract new employers with better paying jobs. Presently a great many of the manufacturing jobs in rural America are low-skill and low-wage positions.

The shortage of venture capital in small cities and towns of America is another serious impediment to economic development. Many rural banks have failed and others are burdened with agricultural lending. The recent trend toward loan guarantees on the part of the federal government does not help the situation because the money simply is not present in many rural communities to be loaned even with a guarantee. EDA-funded revolving loan funds, for example, need to be replenished and expanded if small businesses are to start and succeed in these localities.

The explosion of service sector jobs in our economy has largely by-passed rural counties. Those rural counties located close to major cities or enjoying an

influx of retirees have attracted service sector jobs. But in the more remote areas of the country the population is too small and scattered to attract service sector jobs. Another barrier to the expansion of service sector employment is the need for better telecommunications infrastructure in rural America so that the information technologies are fully available.

In short, many of the problems faced by rural America have grown worse during the 1980s, creating in our midst a "second nation" where significant numbers of Americans lack employment or education or other basic ingredients of the American way of life.

THE NEED FOR FEDERAL INVESTMENT IN RURAL AMERICA

We believe that the federal government has a responsiblity to encourage, in fact to foster, community development and economic diversification in both rural and urban areas. Not all communities are equally endowed with economic resources and the effects of broad macro-economic policies do not fall evenly across the land. Many big cities and major metropolitan areas are now experiencing an urban revival, thanks in part to federal investments through programs like the Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) programs.

For small metropolitan and rural communities, the most valuable federal development programs are those which make possible strategic planning and technical assistance, infrastructure, capitalization of revolving loan funds, and appropriate research. The single federal agency which provides all of these programs is the Economic Development Administration. The fact that federal funding for rural development has been cut 74 per cent since 1980 has resulted in grave damage to small town and rural America. We ask you today that, as members of this committee, you reverse this trend by maintaining fiscal year 1988 levels of funding for EDA and SBA programs that help sustain rural America. (Attached to this testimony is a chart comparing federal budget allocations for rural development programs from fiscal 1980 to 1988.)

Currently, EDA provides funds to 279 economic development districts in 47 states for strategic planning and technical assistance to local governments, businesses and non-profit institutions. Although the amount awarded to each district is very small ($55,000 average), it provides the professional staff needed to help foster community development and economic diversification. With the loss of revenue sharing and reduction in other programs, small local governments depend more than ever on development district staff for planning and technical assistance.

Because of the economic development districts, the Small Business Administration's Section 503/504 Certified Development Company program is also available in rural areas. Approximately half of the SBA Certified Development Companies were established on a regional basis by development districts which provide the necessary professional staff. By using the 503/504 program, many small businesses have been able to obtain guaranteed loans for fixed asset financing in combination with private funding. Without the development districts established by EDA, certified development company financing would not be available in small metropolitan and rural areas.

The Reagan Administration has continued to call for the elimination of EDA, stating that the Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) and Environmental Protection Agency (EPA) wastewater construction grant programs are sufficient for rural communities. An analysis of both CDBG entitlement and non-entitlement grants, and EPA wastewater construction and related grants, showed that in 1986 13 states (New York, California, Illinois, Pennsylvania, Ohio, Texas, Florida, Massachusetts, New Jersey, Michigan, Indiana, Maryland, Missouri plus Puerto Rico) received over 65 percent of these funds. The other 38 states received less than two percent each for a total of 34.7 percent, and 21 states received less than one percent each, for a total of only 10.2 percent. In 1987, 10 states received 57.5 percent of the CGBG funds.

For predominantly rural states and at the sub-state level, EDA, ARC and FmHA are particularly important to distressed rural areas. In the aggregate, over 70 percent of the CDBG funding and perhaps 75 percent of the EPA money goes to metropolitan cities and counties. On a state-by-state basis, the small cities' share of CDBG funds is as little as eight percent. In most rural states the percentage of funds going to nonmetropolitan communities may be high but the dollar amount is relatively small. Several states have received less than $1.5 million in nonentitlement (small cities) CDBG funds in recent years.

A program such as EDA is so modest that it has virtually no impact on the federal budget deficit. Yet these $182 million program dollars are enormously important to the small communities served because they provide development money not otherwise available. In 1987 for example, the $117,845,277 federal investment in EDA public works projects was matched by $1,416,955,000 in local and private sector funds. This investment created 55,890 long term jobs at a cost of only $2108 per long-term job.

NADO RECOMMENDATIONS FOR ECONOMIC DEVELOPMENT PRIORITIES

Our first recommendation is the continued funding for technical assistance and development planning functions as currently provided under Title III. The importance of this appropriation is that it provides small towns or counties with expertise and skills to solve their problems.

Infrastructure in small towns must be maintained and restored. A recent report issued by the National Council on Public Works states that they "found convincing evidence that the quality of America's infrastructure is barely adequate to fulfill current requirements, and insufficient to meet the demands of future economic growth and development." Nowhere is this more apparent than in rural America. The public works portion of EDA (and water and sewer monies under FmHA) are far from sufficient to the need. Such funding must be preserved and in the future expanded.

A healthy economic future for rural America depends upon access to adequate amounts of capital on affordable terms. The most responsive means for assuring such capital availability in many rural areas has proven to be a revolving loan fund (RLF) administered on a multicounty basis. Despite the small amount of federal money which has been available to help capitalize RLFs, they have been widely recognized as flexible financing tools for local economic development. A recent federally contracted evaluation of RLFs by Mt. Auburn Associates indicates that they are far more effective than direct federal lending. Because the Mt. Auburn study was so favorable, it seems to be very difficult to obtain. NADO has prepared a Special Report on RLFs which we are including with our testimony, so that there can be an open discussion and evaluation of this important economic development tool.

The EDA Title IX program provides a small but essential amount of money for capitalizing Revolving Loan Funds. One of the problems with the present administration of EDA programs is that recipients must match federal funds dollar for dollar. This requirement contradicts other federal policies which have reduced or waived local match for economically distressed areas. The high local match being required (from 25 percent to 50 percent) means the poorest rural areas are not able to participate, even though they already face dire economic problems. Economic development for only those who can afford it is like providing health care for only the affluent.

Distress can be defined in terms of poverty, unemployment, outmigration of population, and indices of underemployment such as low per capita and median family incomes. The provision of federal assistance, including requirements for local match, should be directly sensitive to the degree of economic distress. NADO asks that federal policy not consign the poorest rural areas to ever worsening economic decline.

Development districts who manage revolving loan funds are also being given new terms and conditions for their RLFs which will limit their usefulness in rural communities. None of these conditions has been promulgated as regulations or reviewed by Congress, RLF managers, or the public. Restrictions are being placed in grants on an arbitrary basis without any public discussion in authorizing or appropriations committees. For example, EDA has notified some RLF participants that they are not permitted to use interest earned to provide staff support for servicing RLF loans to ensure continuing repayment. One RLF grant recipient has been told that capital must be reloaned so that they do not retain a balance of over 25 percent for more than six months. This requirement for loaning out funds during a relatively short time will encourage lower quality loans to meet an arbitrary quota which in turn may result in an increased loss rate.

Because of the inappropriate administrative changes being proposed, we ask that the Subcommittee include legislative language which will insure that EDA programs are administered according to the intent of Congress. As you are no doubt aware, the agency management no longer complies with congressional report language. It appears to our members that the agency administrators are trying to eliminate support for EDA by making regulatory changes which inhibit program participation.

CONCLUSION

In summary, the major problems of rural and small town America include unemployment, poverty, outmigration, loss of tax revenues to provide services, shortage of venture capital, and need for infrastructure improvements. To remedy these problems we believe that the priorities for Fiscal Year 1989 funding should be:

Grants to locally based regional organizations to provide planning and management assistance for local governments and small businesses in rural areas.

Grants and loans for necessary infrastructure and related community facilities in rural counties and communities.

Investment in revolving loan funds to help provide capital and leverage private funds to create jobs which in turn will reduce poverty and generate tax revenues.

Mr. Chairman we ask that you and the members of the subcommittee continue to provide funding for the Economic Development Administration programs in fiscal 1989. These funds are of vital importance to thousands of small metropolitan and rural communities across the country who are working with the private sector to maintain and create new jobs. EDA was created in response to patterns of economic distress which unfortunately persist in many rural regions. We appreciate the support of Congress for the continuation of EDA funding in the past and thank the Chairman and members of the subcommittee for receiving this testimony.

FEDERAL BUDGET COMPARISON, FY 1980-1988, RURAL AND RELATED DOMESTIC PROGRAMS (Millions of Dollars)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	Proposed 1989
DEPARTMENT OF AGRICULTURE										
FmHA										
Water & Waste Disposal Grants	290.0	200.0	125.0	300.0	90.0	115.0	109.4	109.4	109.4	75.0
Water & Waste Disposal Loans	(700.0)	(750.0)	(375.0)	(600.0)	(270.0)	(340.0)	(325.4)	(330.3)	(330.3)	(250.0)
Community Facility Loans	(240.0)	(260.0)	(126.2)	(130.0)	(130.0)	(115.0)	(95.7)	(95.7)	(95.7)	(50.0))
Business & Industry Grants	10.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business & Industry Loans	(1073.0)	(741.0)	(300.0)	(300.0)	(300.0)	(61.4)	(95.7)	(95.7)	(95.7)	(95.7)
Fire Protection Grants	3.5	3.5	3.3	3.3	3.3	3.3	3.1	3.1	3.1	0.0
Planning Grants (Sec. 111)	6.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rental Housing Loans	(881.3)	(842.5)	(953.7)	(802.0)	(948.0)	(983.3)	(669.9)	(669.9)	(554.9)	0.0
Resource Cons. & Develop. (RC&D) Loans	(1.0)	(2.0)	(0.9)	(1.2)	(4.0)	(0.5)	(1.9)	(1.2)	(1.2)	0.0
SCS										
RC & D Projects	32.0	34.0	26.5	30.7	26.0	26.3	25.0	25.0	25.1	25.0
APPALACHIAN REGIONAL COMMISSION										
Total Non-Highway Programs	126.6	119.9	62.1	83.0	49.1	59.3	32.7	29.4	37.6	0.0
Research, T.A., Other	2.6	1.9	2.0	2.0	2.5	4.0	1.0	1.0	2.6	0.0
Local Development Districts	5.7	6.0	4.5	4.0	4.0	3.5	2.0	2.0	3.2	0.0
Jobs & Private Investment	n.a.	n.a.	n.a.	54.0	27.3	28.4	12.2	20.5	25.0	0.0
Distressed Counties Program	n.a.	n.a.	n.a.	15.0	17.6	17.0	3.2	5.9	6.0	0.0
Health Finish-up Program	n.a.	n.a.	n.a.	8.2	4.1	3.5	0.0	0.0	0.0	0.0
DEPARTMENT OF COMMERCE										
EDA										
Planning Grants	33.6	23.9	24.7	27.0	27.0	26.0	25.0	24.0	23.0	0.0
Public Works	260.7	257.9	129.9	229.9	170.0	156.0	107.2	122.4	126.5	0.0
Economic Adjustment Grants	85.9	12.6	33.0	33.0	33.0	33.0	24.9	24.0	24.7	0.0
Technical Assistance	30.7	26.4	7.9	7.5	8.0	8.2	7.7	7.0	6.7	0.0
Research & Evaluation	4.2	2.7	1.6	2.0	2.0	2.0	1.9	1.0	1.2	0.0
Direct Loans	116.4	54.1	0.0	17.0	18.1	0.0	0.0	0.0	0.0	0.0
Total Program Funds	531.5	377.6	197.1	316.4	258.1	226.0	166.6	180.4	182.0	0.0
Loan Guarantees	(425.0)	(425.0)	(150.0)	(20.0)	(150.0)	(150.0)	(150.0)	(150.0)	(150.0)	0.0
Salaries & Expenses	40.0	39.7	25.0	27.6	27.9	29.4	24.9	25.0	24.7	0.0
REGIONAL DEVELOPMENT (Title V)	109.4	47.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ENVIRONMENTAL PROTECTION AGENCY										
Construction Grants	4900.0	5100.0	3400.0	2430.0	2435.0	2400.0	1774.2	2361.0	2304.0	1500.0
DEPARTMENT OF HEALTH AND HUMAN SERVICES										
Community Serv. Block Grant(80-81 CSA)	550.5	542.3	348.3	375.1	348.0	360.1	320.6	335.0	302.3	310.0
National Health Service Corp.	77.5	92.3	80.4	86.3	65.3	59.7	58.5	47.0	51.0	35.0
Rural Development Loan Fund	20.0	7.7	0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT										
Comm. Dev. Blk. Grant-CDBG (30% rural)	3862.0	3694.6	3456.0	4456.0	3460.0	3460.0	2990.0	3000.0	2000.0	2400.0
Urban Dev. Act. Grant-UDAG (25% rural)	675.0	675.0	473.7	440.0	440.0	440.0	315.0	225.0	216.0	0.0
Rehabilitation Loans (312)	214.2	132.3	49.9	44.9	132.1	0.0	72.0	200.0	0.0	150.0

NADO NEWS Special Report No. 12

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
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February 26, 1988 Vol. 10, No. 9 Editor: Aliceann Wohlbruck

REVOLVING LOAN FUNDS: VALUABLE ECONOMIC DEVELOPMENT TOOLS

This NADO Special Report is designed to provide several levels of information about revolving loan funds (RLFs), ranging from the most basic to the moderately technical. While it does not provide the level of technical guidance required to structure and operate an RLF, it does offer familiarization with the issues and concerns involved in doing so and references materials which do provide such guidance. While NADO is an association comprised primarily of substate, multijurisdictional planning and development organizations, this report is designed to be helpful to a wide range of readers.

WHAT IS A REVOLVING LOAN FUND (RLF)?

Simply put, an RLF is a "revolving fund" from which loans are made. A revolving fund is an account designed to be replenished by periodic returns of its principal and even increased by a return of revenues generated from its outlays (investments). In somewhat different terms, it is a fund to which repayments are made to restore amounts withdrawn to finance activities for which it was established. The gist of this is that repayments of loan principal are returned to the fund to restore its capital and, to the extent possible, payments of interest are paid into the fund to increase its capital base.

WHAT IS THE PURPOSE OF AN RLF?

RLFs are meant to help fill gaps in capital availability for private sector based economic development. They increase the capacity of the organizations operating them to promote economic development through the provision of affordable financing to business firms. In technical terms, they compensate in some measure for the localized impact of structural imperfections causing inefficiencies in the operation of capital markets. In addition, they may address an "equity" issue where market outcomes are believed to result in unfair distributions of investment capital and credit availability.

A major economic rationale for RLFs is that small, independent, rural businesses face systemic barriers in obtaining adequate financing. For various reasons, rural commercial banks often are unwilling or unable to provide the needed funds on affordable terms. In some cases it is because the banks themselves are beset by financial problems and in others it is a function of "risk aversion" reinforced by "imperfect information." In the latter case, the bank is understandably reluctant to make loans for lines of business with which it is not thoroughly familiar. When the cost of the necessary knowledge outweighs the profit to be made from the transaction, the deal is not feasible and the loan is not made.

WHAT ARE THE SOURCES OF CAPITALIZATION FOR RLF'S?

Beyond strictly state and local government resources and private sector subscriptions (donations or investments), the federal government operates three programs which provide grants to capitalize RLFs and a fourth grant program which can be used in a way which results in capitalization of an RLF.

Grant funded RLFs are qualitatively different from the financial devices represented by Certified Development Companies (CDCs) and Small Business Investment Companies (SBICs) chartered by the Small Business Administration (SBA) and the "nonprofit rural development finance corporations" qualifying for participation with the Farmers Home Administration (FmHA) in providing loan guarantees. About a third of the grant-funded RLFs are operated by substate regional planning and development organizations such as councils of governments and regional planning commissions. About a fourth are administered by state or local governments. The rest are run by private, nonprofit corporations and quasi-public institutions.

Basic Grants For Capitalization

The Economic Development Administration (EDA) has been making grants to capitalize revolving loan funds under its Economic Adjustment (Title IX) program since 1975. Although in 1977 EDA was authorized to fund RLFs under its Redevelopment Area Loan Program (Section 204), Title IX has remained the statutory vehicle due to its greater flexibility. However, until 1978 RLF grants were made only under the "Sudden and Severe Economic Dislocation" (SSED) portion of Title IX. Currently, "Long Term Economic Decline" is the more common rationale for RLF grants. Overall, for the last several years the EDA program has provided the only viable source of RLF capitalization for most economically distressed areas, albeit with limited appropriations.

The Appalachian Regional Commission (ARC) has provided grants for RLFs restricted to energy related purposes in the past. However, the restriction was removed by fiscal 1988 appropriation language and on February 22, 1988, the Appalachian governors approved a new, broader business development program on a one-year demonstration basis. Previously, ARC-funded RLFs were used primarily in Pennsylvania under the rubric of an enterprise development program. Now ARC grants can be made for general purpose economic development oriented RLFs. (The Local Development District Conference will include a session addressing this on March 7, 1988.)

The Office of Community Services (OCS) in the Department of Health and Human Services (HHS) administers the community economic development portion of Secretary's discretionary fund under the Community Services Block Grant (CSBG) program created in 1981. The discretionary fund, which is not more than nine percent of CSBG funds, replaced the community economic development program originating with Title VII of the Economic Opportunity Act. In fiscal 1987 OCS began allowing its grant funds to be used to capitalize RLFs.

The Community Development Block Grant (CDBG) program administered by the Department of Housing and Urban Development (HUD) offers another avenue for capitalizing an RLF, albeit indirectly. While entitlement cities and urban counties can take direct action to make loans resulting in the creation of RLFs, nonentitlement communities ("small cities") must deal with state imposed regulations as well as HUD policies. Lately, HUD has pursued a policy regarding "program income" which discourages the creation of RLFs with nonentitlement funds at other than the state level.

Matching Funds

The most difficult local challenge in obtaining an RLF capitalization grant often is raising the required matching funds. While EDA generally has focused on the economic development purpose of its RLF grants, rather than the invention of bureaucratic barriers restricting the nature of acceptable matching funds, for relatively poor rural areas any significant cash match can be a severe problem. The normal course for such areas has been to seek external sources of matching funds. In some cases CDBG and CSBG funds have been used to compensate for the lack of local cash, but reductions and terminations of federal programs, coupled with widespread economic distress, have escalated competition for the remaining funds and made raising the match more difficult. This difficulty has been exacerbated by the recent EDA requirement of dollar-for-dollar cash match, rather than match based on local economic conditions.

ORGANIZATIONAL ARRANGEMENTS

Although the details of organizational arrangements depend upon the characteristics of the legal entity administering the RLF, some principles tend to apply across the board. One logical concern is for economies of scale in operation of an RLF and sufficient geographic coverage to ensure the availability of a quality deal flow. Beyond this concern and the basic legal and procedural requirements imposed by federal funding sources, common concerns center on the membership and responsibilities of governing boards and loan application review bodies and the provision of qualified professional staff support.

Successful treatment of the scale and geographic coverage issues necessitates trade-offs to avoid compromising ease of access to both potential borrowers and local networks of lenders and investors who can strengthen deal by virtue of their participation. For nonmetropolitan and small metropolitan areas, substate regional planning and development organizations such as EDA-funded Economic Development Districts often represent a ready-made answer.

In the composition of governing boards, there appear to be trade-offs between control by public officials and greater private sector representation. Public sector representation tends to be associated with greater sensitivity to public purpose objectives, greater coordination with publicly sponsored economic development activities, and access to public resources. Private sector representation tends to improve credibility in the financial and business communities, but may lead to an overemphasis on financial criteria rather than economic development benefits.

ADMINISTRATIVE ARRANGEMENTS

The administration of an RLF necessarily is conducted with adherence to applicable laws, regulations, accounting standards, and ethical business practices. Administrative management is conditioned by the grant agreement or similar contract, program-specific rules and "cross-cutting" federal regulations (e.g., Office of Management and Budget circulars), underlying federal statutes and explanatory material such as conference committee reports, applicable state laws, and other rules and standards of conduct. Depending upon the funding source, administrative arrangements may be relatively simple or fraught with complexity. Adequate staffing is essential in any case.

OPERATIONAL CONSIDERATIONS

Beyond applicable federal regulations and standard accounting requirements, the most important operational consideration is the "due diligence process," the careful review of business plans and the underlying facts about requested loans. In turn, this process has overriding implications for staffing and other organizational and administrative arrangements. For example, an RLF manager should try not to generate more of a "deal flow" than can be handled with due diligence. This requires a balancing act to attract enough good deals without overwhelming qualified analysts and decision-makers. To accomplish and maintain such a balance, the RLF itself needs a business plan, the details of which must vary with the organization's capabilities and the socio-economic context, including the number of experienced entrepreneurs in the area.

Newsletters, seminars, business clubs, and incubators can help in the generation of potential deals. However, the key to success lies in how proposals are handled by the RLF manager. Thorough analysis of business plans, including financial statements and projections, is only part of the process. Accurate assessment of the principal individuals involved is an essential ingredient. The educations, experiences, and other aspects of the backgrounds of the firm's management are pivotal factors, often transcending the nature of the product or service and the market. Yet, such is not to say that a firm will necessarily succeed with competent management or fail with unqualified management. The element of uncertainty makes for art rather than science in the selection of good deals.

While recognizing the importance of certain intangible factors, it is possible to minimize many uncertainties by applying proven methods of analysis. The necessary analytical techniques can be learned without pursuing a college degree and, fortunately, most have been largely automated with the development of relatively sophisticated handheld calculators and applicable software for general purpose microcomputers. "Financial ratio analysis" no longer is an occult art practicable only for bankers and the like. Almost anyone can "run the numbers" now, but the challenge of distilling their meaning remains. This problem is dealt with in part by drawing on the common sources of studies establishing "standard" or typical operating and financial ratios for various lines of business, such as Dun & Bradstreet and

Robert Morris Associates. The real trick remains in the interpretation and evaluation of a firm's ratios in the context of industry norms. For this, there is no substitute for good judgment grounded in experience and knowledge about the particular line of business.

The importance of informed judgment carries implications for operational considerations such as ease of access to outside expertise which can be brought to bear in the valuation of potential deals. Cooperative arrangements with other lenders and investors can be helpful, as can coordination with business administration faculties at colleges and universities. Federally funded resources include EDA-funded University Centers and SBA-funded Small Business Development Centers (SBDCs) and Small Business Institute (SBI) programs.

Cooperation With Other Lenders And Investors

Constructive cooperation with other lenders and investors can help in the generation of a quality deal flow, the conduct of the due diligence process, and the servicing of an existing loan portfolio. The development and maintenance of a viable referral network can be beneficial to all of the parties involved. For example, the creation of a venture capital club comprised of local investors can provide a source of equity and near-equity investments which can improve the debt-to-equity ratios of RLF borrowers.

Coordination With Other Development Programs

Coordination with other development programs is, at least potentially, a built-in advantage enjoyed by multijurisdictional planning and development agencies, such as economic development districts (EDDs) and regional councils of governments. They enjoy a useful familiarity with programs such as CDBG and UDAG. This advantage is heightened for the many substate development district organizations which are EDA designated EDDs or ARC recognized local development districts (LDDs) and have parallel CDCs which can provide fixed asset financing under SBA's Section 504 program and are adept at packaging SBA, FmHA, or EDA business loan applications.

Restrictions on tax-exempt industrial development revenue bonds and reduced funding of federal programs such as CDBG make coordination with state economic development efforts all the more important. State control of tax-exempt bond allocations and federal resources such as Job Training Partnership Act and nonentitlement CDBG funds exemplify the necessity of coordination.

ASSESSMENTS OF RLF'S

The most recently published assessment of RLFs is a study of those receiving capitalization grants from EDA. The Mt. Auburn Associates' analysis of data on 116 RLFs, 729 borrowers, and 1302 financings dating from 1982-1984 yielded favorable conclusions. It found that RLFs leveraged about $4.00 of private funds for each dollar that they invested, yet they are serving the types of firms that have the greatest difficulty obtaining financing in the private market. Related points are that the RLFs are providing types of financing that are scarce in the private financial market and that most RLF borrowers could not have fully met their financing needs without the EDA-funded RLF involvement.

Mt. Auburn Associates found that even under the most conservative estimates, job creation and retention by RLF loans met or exceeded EDA's own standards, reflecting the fact that they tend to finance firms with relatively high local employment impacts. In this regard, RLFs are focusing on firms that are most likely to export goods outside the community, thereby building the area's economic base and creating the greatest net employment impacts.

There were few findings with negative implications and they were not particularly surprising. For example, it was found that in the four years between 1982 and 1984 about 22 percent of the companies that received financing in 1982 defaulted on their loans. Given that the period in question was one of severe economic recession, this rate of default is not too surprising for largely export oriented firms

operating in areas that have been economically distressed even in times of general prosperity. The annual small business failure rates for the nation during the period would yield about the same results.

Other less than favorable findings were that RLFs had not adjusted their interest rates to reflect capital market conditions and only about 30 percent provided any management assistance to borrowers. It appears that the first of these faults RLFs operating in localized capital markets for not adjusting to international capital markets which are largely irrelevant to the needs of their local borrowers. The second ignores the fact that SBDCs are funded by SBA to provide management assistance to firms of the size range normally financed by RLFs; therefore, RLFs should be able to meet the need indirectly in most states.

It also was found that RLFs which cover entire states tend to be perceived by the borrowers as more bureaucratic than local funds. Again, this is not too surprising. Local, including areawide, RLFs tend to be operated by smaller, normally less bureaucratic organizations and have the advantage of an immediate presence which allows them to be very responsive to potential borrowers.

Mt. Auburn Associates' The Design and Management of State and Local Revolving Loan Funds: A Handbook (August 1987) provides guidance based on the results of the assessment study. It deals with matters such as the formulation of goals and objectives, analysis of the local financial market, management of the lending process, and evaluation of performance. It is a useful publication for those considering the establishment of an RLF, regardless of the prospective source of capitalization.

In 1979-80 McManis Associates assessed the performance of EDA-funded RLFs and prepared a "Revolving Loan Fund Technical Manual," which served as a major source of guidance to RLFs until distribution of the manual written by Mt. Auburn Associates in 1987. Based on reviews of 19 EDA-funded RLFs, McManis' "Assessment of EDA Funded Revolving Loan Fund Activities" reported that organizations having relatively sophisticated economic strategies and/or staff experienced in loan packaging tended to operate more targeted RLFs and to generate loan packages that included several public and private financing sources. The McManis report indicated that the majority of the RLFs studied made relatively low risk loans and that arbitrary leveraging requirements could be counterproductive.

NADO SURVEY

In 1987 NADO conducted a survey of substate districts operating EDA-funded RLFs. The 56 respondents typically had received EDA Title IX grants of $500,000 to capitalize their RLFs. The most any one had received was $5 million and grants under $500,000 were more common than larger amounts. Virtually all were using their funds for direct loans, not guarantees of loans by other lenders. The interest rates charged varied quite substantially, from 3.21 to 14 percent. The average appears to be around 7.4 or 7.6 percent, versus a "New York prime" rate of 8.25 percent.

Two-thirds of the respondents had relatively young RLFs, having received their initial capitalizations since 1983. This was reflected in the fact that most had made fewer than ten loans. About two-thirds of the responding RLFs serve populations less than 200,000, reflecting the NADO membership as well as recent EDA capitalizations of more rural RLFs.

EXAMPLES OF RLF DEALS

RLFs have been used to finance a wide variety of firms under a significant range of circumstances. Some of the deals might be considered mundane while others have attracted more attention, including stories in the nationwide print media. The following examples are typical of deals done by more mature rural RLFs.

The Eastern Maine Development Corporation (EMDC) has had an RLF since 1981 and has made 16 loans contributing to the creation of well

over 1400 jobs. One deal initiated in 1983 has resulted in the resurrection of the salmon industry and the creation of 94 direct jobs in the assisted firm and over 40 supplier jobs. The crux of the matter was that the small, local bank could not provide all of the needed credit and EMDC was asked to help. In turn, EMDC provided a $110,000 real estate loan from its EDA-funded RLF and arranged for a $450,000 SBA Section 503 loan for fixed assets, a $750,000 UDAG for equipment under HUD's small business revitalization initiative, and a $340,000 CDBG for working capital. Individuals and institutions provided $5.2 million in equity and the bank made a $560,000 real estate loan. Subsequently, EMDC arranged for an OCS grant for $500,000 of equity investment and $200,000 of training funds and private investors provided another $17 million of equity. The UDAG loan is being repaid to EMDC for use as RLF capital while EMDC's nonprofit alter ego corporation, Acadia Development Corporation, holds the equity shares resulting from investment of the OCS grant funds and coversion of the CDBG loan. Prior to this deal the Eastport area had an unemployment rate of around 26 percent and transfer payments were the biggest source of income. For more information contact Michael Aube, President, Eastern Maine Development Corporation, 10 Franklin Street, Bangor, ME 04401; telephone 207-942-6389.

The Three Rivers Planning and Development District (PDD) has had an RLF since 1985 and has made 13 loans. One $57,000 RLF loan in 1985 to a nonprofit association for employment of the blind created ten jobs for the visually handicapped. The ten-year, eight percent RLF loan was accompanied by $70,000 from ARC and matched with $96,000 of equity. This RLF loan has already been repaid. Generally, the RLF loan amount has been in the $100,000 to $300,000 range; the interest rate has been one percent below prime, and the term has been ten years. The average RLF loan amount per job currently is $3400 and pending loan closings will reduce it to less than $3000. For example, one deal created 68 jobs as the result of a $200,000 RLF loan in conjunction with a $400,000 bank loan to finance an industrial building. For more information contact Vernon R. (Randy) Kelley, Executive Director, P.O. Drawer B, Pontotoc, MS 38863; telephone 601-489-2415.

COMMENTARY

Despite the small amount of money available from EDA, RLFs have become increasingly popular among economic development officials, who recognize their advantages. It is clear that RLFs offer a flexible financing tool for pursuing objectives such as the promotion of small business development, stimulation of the growth of key industrial sectors, revitalization of depressed downtown or neighborhood business districts, assistance of minority or disadvantaged entrepreneurs, and encouragement of more aggressive, developmental lending by local financial institutions.

While RLFs are both effective and popular economic development tools, they do face several problems. In 1987 NADO established an ad hoc policy advisory committee on RLFs to assist its board of directors and officers in the identification of salient issues. An open meeting was conducted by the committee at the 20th Annual Conference and NADO members have been invited to submit written comments to the committee. Among the issues identified through the committee process are the need for additional federal funds to capitalize RLFs in distressed areas, the need for solutions to the problem of raising local matching funds in distressed rural areas, and the need for funding of staff support.

RLFs represent an excellent federal and state policy opportunity. They give the federal and state governments not only an avenue of investment in the economic development of distressed areas, but also a way to support more effectively a combination of intergovernmental and public-private partnership arrangements at the local level. For more information about how you can help to strengthen the partnership in support of RLFs as economic development tools for distressed areas, contact the NADO staff in Washington.

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This Special Report was prepared by Bill Bivens of the NADO staff.

AMERICAN INSTITUTE OF

BIOLOGICAL SCIENCES

WRITTEN TESTIMONY FOR THE RECORD OF

THE AMERICAN INSTITUTE OF BIOLOGICAL SCIENCES

FY 89 APPROPRIATION FOR THE NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION (NOAA): OFFICE OF OCEANIC & ATMOSPHERIC RESEARCH (OAR) AND NATIONAL MARINE FISHERIES SERVICE (NMFS)

The American Institute of Biological Sciences (AIBS) is a federation of professional scientific societies and research laboratories representing life scientists in a variety of sub-disc iplines. Collectively and individually, we whole-heartedly support adequate funding for marine biology research and management programs conducted under the National Oceanic and Atmospheric Administration (NOAA). We appreciate the opportunity to submit for the record our views on this matter.

In 1976 the United States extended its fishery jurisdiction to 200 nautical miles. With that extension we assumed responsibility for the wise stewardship of these resources. We also held forth the hope that the US would become more self sufficient in supplies of seafood by either reducing dependence on imports or offsetting our trade deficit in fishery products by exports of seafood. Today we are neither managing our fisheries well nor realizing a reduction in our trade deficit in fisheries. In fact the situation in trade has worsened as our dependence on imports grows.

As professional biologists, we are particularly distressed about the substantial cuts proposed by the Reagan Administration for the NOAA, particularly the ocean and coastal programs. We are particularly concerned because the brunt of the cuts fall on these two programs: Oceanic and Atmospheric Research (OAR) would be cut by one-third; from $141.2 million available under the current FY 88 plan to only $98.1 million this year. The National Marine Fisheries Service (NMFS) would be cut from $162.1 million in FY 88 to $96.8 million under the Administration's request. We feel that these reductions will seriously impede the important research and

development efforts in marine biology which have been initiated in years past, and preclude the opportunity to conduct appropriate new endeavors in the future. In contrast, through the National Institutes of Health (NIH), biomedical funding has increased considerably. At the National Science Foundation (NSF), the Biological Oceanography Program concentrates on deep ocean or "blue water" research, rather than on inshore estuaries and the more "applied" work that NMFS performs. The administration claims to support "basic" rather than "applied" research, but this distinction is never clear. Certainly some of the health-related research of NIH is equally as "applied" as NOAA's. In sum, if these reductions are not resoundingly rejected, our nation's marine and coastal areas will pay the cost.

NOAA's primary research arm, the Office of Oceanic and Atmospheric Research is charged with obtaining information on environmental systems needed for sound policy decisions, and ensuring the transfer of this information to NOAA's "service" arms. Some of the areas in which OAR is active are acid rain research, especially the aquatic effects of acid deposition, and the study of greenhouse gases. Given Congress' concern about these two problems, the suitability of increased, rather than decreased funding for OAR is all the more obvious. In addition, it is the role of OAR to enhance our ability to make use of natural marine resources, including minerals, fish stocks, and even pharmaceutical applications. These areas of study represent not only the future of marine biology but also the cutting edge of applications for the betterment of humans.

In the area of fisheries research and resource management we have identified 3 areas of critical concern:

1. The methods of collecting, analyzing, and disseminating of information on fish stocks, populations, and habitats are inadequate in quantity, quality, and timeliness for effective management of the Nation's fishery resources.

2. Basic research in fishery biology, community ecology, and fisheriy applications do not receive the sustained support essential to expand our knowledge base as an investment in future resource productivity, and thus to improve our efficiency in conserving and managing the Nation's fishery resources.

3. Protection and enhancement of fish habitats and adjacent wetlands, including riparian habitats, and control of airborne contaminants have not been sufficiently effective to assure the productive future of those critical habitats in the face of increasing encroachments by incompatible uses.

Within OAR, we are most deeply concerned about the substantial cuts proposed by the Administration for Oceans and Great Lakes Programs. Overall, $65.2 million is available in the current fiscal year, FY 88. For FY 89, the President would give this sub-activity only $11.3 million. We urge you to actively reject a reduction of this magnitude. A substantial part of this reduction is attributable to the Administration's plan to terminate the Sea Grant Program. In past years, Congress has rejected this proposal. The continuation of the Sea Grant Program is essential if we are to

continue to develop the Nations' marine resources in a sound manner. The Sea Grant program is now the only effective means of coordinating academic expertise in research, education and advisory services across the nation. While much has been accomplished through the Sea Grant program, many more opportunities and needs exist.

Today the nationwide network includes more then 300 universities and affiliated institutions, including a number from inland states. The current national focus on economic competitiveness has led to a proposal to double the National Science Foundation budget over five years and to create a number of Science and Technology Centers. We endorsed the recommendations for NSF. We want to point out that the Centers to be created under NSF appear to have the same operating rationale as Sea Grant. The overall economic competitiveness initiative thus appears to justify not only the continuation of Sea Grant, but also an increase in funding. While the Sea Grant program today represents our primary national capability in many marine resource areas, concern exist that this capability is being eroded. Nearly every university Sea Grant program has cut operations in research, education, advisory services and management. At the institutional level, these cuts exceed 30 percent. The number of projects supported has declined by one-third, even as federal administrative costs continue to rise. More seriously, the number of graduate students has declined significantly. These graduate students are essential to our future. In New Jersey alone $300,000-$400,000 worth of fundable projects (scientific research) were not funded at all last year. Other projects were funded at 50 percent of the budget requested. We urge you to again reject the Administration's contention that further responsibility for this area should be foisted on the private sector.

The National Marine Fisheries Service supports the management, conservation, and development of the Nation's living marine resources, including marine mammals and endangered species and their habitats. The President's plan to reduce appropriations from $162.1 million for FY 88 to $96.8 million in Fy 89, would amount to a dismantling of the National Marine Fisheries Service. When we need to improve fisheries programs and habitat protection, this budget would cut existing programs by more than 50 percent. In addition, over half of the fisheries research fleet would be deactivated and strategically located laboratories would be closed.

As investigators, we are disturbed about the proposed cuts in the Information Collection and Analysis subactivity. This area provides for the collection, analysis and dissemination of biological data on marine and coastal species and their habitats. The proposed funding level will allow these activites to continue only for the the most critical issues, while many important areas of inquiry and analysis will be eliminated.

I am particularly concerned about proposed cuts in protected species biology (-$1.2 million) and habitat research (-$4.8 million). The drastic cuts proposed in habitat research will cripple important studies on impacts of environmental factors such as pollution and low oxygen on our fisheries resources. At this crucial time, these cuts will undermine NOAA's new initiatives in estuarine research. Estuaries are vital nursery areas for many

commercially important species. They deserve attention since environmental degradation is often prevalent. We are also concerned about proposed cuts in habitat evaluation (-$471,000) and marine mammal research (-$1.5 million).

Proposed cuts in both funding and staffing for the stock enhancement and disease research program are worthy of your attention as well.

Given Congress' concern about the world resources and food supply, such research should be increased, rather than decreased. Enhancing fish stocks is one of the most important tools that might be used to achieve long-range solutions to our most basic problem--sustaining a growing population. As the health effects of eating fish become better known and more people eat fish regularly, our fisheries have been utilized to the maximum. We must import shrimp and other fish products from countries with more advanced stock enhancement technologies (such as aquaculture). At a time when "competitiveness" is the catch word, programs are being curtailed in the very areas that could make the US more competitive in fishery products. At a time when fish consumption is rising rapidly whie stocks decline due to pollution and overfishing, additional funding resources, rather than cuts for the country's fishery agency are called for.

The Administration contends that "decreases are proposed for activities that are not required to meet highest priority research and management needs". We are disturbed by this statement. We feel that a thoughtful consideration of the most pressing long-range issues facing our Nation and the world would not lead to this conclusion. On the contrary, the overwhelming need to manage endangered marine species, to better sustain fish stocks, and to study marine ecosystems which are changing due to environmental pressures and pollution, must be considered "highest priority" needs.

AIBS urges you to provide additional funding at least consistent with the current funding level for FY 88 for the National Marine Fisheries Service, especially its Information Collection & Analysis and Conservation and Management functions. We also strongly recommend that you provide funding for the office of Oceanic and Atmospheric Research at or above the FY 88 current level, and reinstate the Sea Grant Program. Thank you for your attention.

HOPE COLLEGE

OFFICE OF THE PROVOST

STATEMENT OF JACOB E. NYENHUIS
Hope College

to
COMMITTEE ON APPROPRIATIONS
United States Senate

on
COUNCIL OF AMERICAN OVERSEAS CENTERS

I urge you to allocate **$125,000 from the 1989 USIA budget to the Council of American Overseas Centers.**

I make this strong plea because I have seen first hand the benefits provided by these centers. For most of the past two decades I have served on the Managing Committee of the American School of Classical Studies at Athens, first as a representative of Wayne State University and now, for more than a decade, of Hope College.

My understanding of the value of these overseas centers was especially shaped, however, by my year in residence at the American School of Classical Studies at Athens in 1973-74, when I served as Visiting Research Professor at the School during my sabbatical from Wayne State University.

While at ASCSA that year, I joined in many of the School's activities, traveling with the Director and the Professor of Archaeology on field trips with the students, besides teaching a seminar and carrying on my own research. Those field trips were an invaluable part of my own professional development, just as the library served as an invaluable resource for my research.

During that year I was able to complete not only the very important foundational work for my entry, "Daidalos et Ikaros," which was published in Lexicon Iconographicum Mythologiae Classicae, Vol. III, but also a book-length manuscript on myth and creativity.

My experiences on the archaeological field trips and from museum visits similarly laid the foundation for the many Hope College study tours of Greece which I have conducted since 1977. During those study tours, I have often used the library at ASCSA to update my knowledge of sites in Greece, since there is no better place to obtain the most current information on excavations and interpretations of artifacts in Greek museums.

Hope College students and alumni who have participated in my study tours therefore have been the direct beneficiaries of my access to the rich resources of ASCSA. In addition, the Director of the Corinth Excavations, Charles K. Williams II, has regularly lectured to my students at Corinth, giving them the immediate benefit of his vast knowledge.

ASCSA is also extremely well managed under the very able guidance of Professor James R. McCredie, Chairperson of the Managing Committee. My visiting professorship at ASCSA, moreover, came during his tenure as Director of the School, so I observed first hand his consummate administrative and scholarly abilities.

I am also personally acquainted with Professor Bert DeVries of Calvin College, who is about to assume the directorship of the

American School for Oriental Research in Amman, Jordan. He also will manage that center extremely well.

Also known to me is Dr. Mary Ellen Lane, Executive Director of the Council of American Overseas Research Centers. She brings to that position both a thoroughgoing professionalism and considerable practical experience from her years in Egypt.

It would also be appropriate to mention two other Hope College faculty who have benefitted from overseas research centers. Professor Emerita of Classics Ruth W. Todd has spent many summers in Greece, both before and since her retirement in 1986, working on excavations and at museums. She regularly uses the library resources at ASCSA. And Professor Barry L. Bandstra, Associate Professor of Religion and Hebrew, consistently relies upon the American Center for Oriental Research in Amman during his frequent travels to Jordan. In fact, at this very time he is leading a Hope College Student and Alumni Tour of Jordan and Israel, using ACOR as a base for his work in Amman.

Under the tutelage of Professor Todd two Hope College graduates in recent years have gone on to graduate study in archaeology and both of them have participated in excavations in the Middle East, where they were helped by the resources of the American School of Oriental Research. I also expect a number of students of Professor Bandstra to be inspired to pursue careers in archaeology and, therefore, to benefit from the overseas research centers.

You can be assured, therefore, that the investment of a very modest share of the 1989 USIA budget in the Council of the American Overseas Research Centers will have a very significant impact upon these centers, upon scholars like myself and Professors McCredie, DeVries, Bandstra and Todd, and upon students at Hope College and all across the country.

I enthusiastically join with other professional colleagues in giving my very strong endorsement to the request that you allocate $125,000 from the 1989 USIA budget to the Council of American Overseas Centers.

Signed:

Jacob E. Nyenhuis
Professor of Classics and Provost

Date: May 13, 1988

JEN:sdp/VI.may
cc: Professor Bert DeVries
Professor James R. McCredie
Dr. Mary Ellen Lane

International Association of Fish and Wildlife Agencies
(Organized July 2, 1902)
444 North Capitol St., NW, Suite 534, Washington, DC 20001 (202) 624-7890
Jack H. Berryman, Executive Vice President

STATEMENT OF THE INTERNATIONAL ASSOCIATION OF FISH AND WILDLIFE AGENCIES
ON THE FY 1989 BUDGET FOR THE NATIONAL MARINE FISHERIES SERVICE
BEFORE THE SENATE APPROPRIATIONS SUBCOMMITTEE
ON COMMERCE, JUSTICE, AND STATE,
THE JUDICIARY AND RELATED AGENCIES
May 2, 1988
by
Gordon C. Robertson, Legislative Counsel

Mr. Chairman, the International Association of Fish and Wildlife Agencies welcomes this opportunity to take part in your Committee's examination of the National Marine Fisheries Service Budget for Fiscal Year 1989.

The International Association of Fish and Wildlife Agencies, founded in 1902, is a quasi-governmental organization of public agencies charged with the protection and management of North America's fish and wildlife resources. The Association's governmental members include the fish and wildlife agencies of the states, provinces and federal governments of the U.S., Canada, and Mexico. All 50 states are members. The Association has been a key organization in the promotion of the principles of sound resource management and the strengthening of federal, state and private cooperation in protecting and managing fish and wildlife and their habitats in the public interest. As an organization committed to balanced fish and wildlife resource conservation, management and development, we have a great interest in the programs being operated under the National Marine Fisheries Service's jurisdiction and direction, particularly those which directly influence state-federal coordination and cooperation with our members.

The National Marine Fisheries Service (NMFS) $96.8 million budget for operations, research and facilities represents a 40% reduction over the FY 88 budget (as compared to $162.0 million in FY 88). Personnel would be cut by approximately 270. Even with its current $162.0 million budget, NMFS is presently unable to fulfill its obligations. This proposed reduction will threaten the survival of the agency and jeopardize the ability of NMFS to manage the Nation's marine fisheries. Oceans and fisheries programs would receive great cuts, while other NOAA and Department of Commerce activities have substantial increases. The Association finds no justification for the disproportionate cuts proposed for NMFS. The Nation's primary marine resource management agency is being dismantled and eviscerated.

The Association believes that the highest priority functions of NMFS are research, data collection and management of interjurisdictional fishery resources. These federal responsibilities cannot be delegated to industry or the states.

The Association offers the following recommendations for NMFS budget areas that are high priority for restoration:

The Association recommends that the Interjurisdictional Fisheries Act of 1986, which replaced the Commercial Fisheries and Development Act (PL 88-309), be fully funded at the $5 million level as authorized by Congress. State and interstate commission projects funded through this program will provide much needed interjurisdictional fisheries information and commercial catch statistics to the Regional Councils and interstate commissions. This program, fully funded, will enable the states, councils and commissions to effectively monitor and develop regional fishery management plans.

Grants to states through the Anadromous Fish Conservation Act (PL 89-304) should be restored to the 1986 level of $3 million including $0.5 million for the Emergency Striped Bass Study (the 1989 Administration Budget is 0). This minimal level of funding of Anadromous Fish Grants is essential to continue annual monitoring and research on extremely valuable and man-impacted salmonid, striped bass, American shad and related river herring fisheries for which federal and state (interjurisdictional) conservation and management are basic to resource restoration and enhancement. Continual funding of the Emergency Striped Bass Program on the

Atlantic Coast is essential to the completion of studies under way to reverse the precipitous decline of this economically important species.

The budget for the operations of the Regional Fishery Management Councils (established by PL 94-265) should be restored to the 1987 level of approximately $8 million (the Administration proposes a budget reduction of about 50% for the councils). If Council operational cuts are sustained, Councils which have produced management plans and manage all important fisheries in the Exclusive Economic Zone will be reduced to inoperative status. Councils must maintain their dynamic planning and monitoring functions, as envisioned in the Fishery Conservation and Management Act, if domestic commercial and recreational fisheries are to flourish. Many important species are still in need of fishery management plans and many existing plans are in need of revision. Once plans are developed, the councils must actively monitor and manage fisheries to ensure that optimum yields are achieved and maintained. As a new and added responsibility, the Councils must address fishery habitat resource issues as mandated by recent amendments of the Magnuson Act.

The Association recommends that the Marine Recreational Fisheries Statistics Program be retained and funded at the $1.8 million level. Many fishery management plans cover fisheries with major recreational as well as commercial components. Such fisheries cannot be managed on commercial landings data alone. The Administration's proposal to cancel this program would eliminate the only recreational estimates that are available to NMFS and the Councils. Presently many states have developed and are developing their own recreational statistics programs. However, in many cases the state programs use and depend on the NMFS program to provide baseline information which then is enhanced by further state data collection. Until better approaches are developed and implemented, this program must be retained.

We strongly oppose termination of Federal support for the Columbia River mitigation hatcheries. An adequate alternative funding mechanism has not been implemented, and a halt in hatchery production from 24 salmon hatcheries would jeopardize major fisheries and be counter to U.S./Canada Pacific Salmon Treaty commitments, as well as the legislation authorizing the Columbia River projects.

The Association strongly recommends the NMFS habitat research and conservation programs be maintained at 1987 levels--$14.9 million and $5.3 million respectively (the 1989 budget proposes a crippling reduction of $7.20 million for habitat research and for habitat conservation). Productive habitat is absolutely essential. Habitat research, environmental management activities, habitat conservation analyses, associated mitigation work and high level of cooperation with Corps of Engineers and other agencies must be priorities for restoration. The NMFS Habitat Policy initiatives and responsibilities should be sustained by the budget.

Resource Information, Collection and Analysis. The ability of NMFS to perform its primary research and management functions and to disseminate the relevant information to public and private sectors must be maintained if the many responsibilities mandated by Congress are to be carried out at a useful and effective level. Among these mandates the Association considers the NMFS research and statistical support to the Fishery Management Councils to be paramount. The Administration proposed a reduction of $38 million in this category. The International Association urges full restoration of these funds.

The total allocation of Saltonstall-Kennedy (S-K) funds to NMFS for FY 89 is estimated at $56.3 million. All of it is proposed to offset the NMFS operation, Research and Facilities Account, which would eliminate the S-K grant program. The Association recommends maintenance of a $9.3 million S-K grant program to address high priority recreational and commercial fishing industry research, development program, and generate industry matching monies.

Special concern is called to the Administration's proposed closure or reductions of staff in many important NMFS research facilities. The work of the fisheries councils and state management programs have always been inhibited by the inadequacy of fisheries statistics and stock assessment estimates. The NMFS laboratories, with their valuable scientific, technological expertise, equipment, and facilities, deal with an array of fisheries resource management and marine ecological problems which proposed cuts would virtually eliminate. Programs such as PACFIN, SEAMAP and MARFIN provide an important part of the support for the councils and commissions and depend on full funding. Other mandates requiring research support by NMFS are the Endangered Species Program, the Marine Mammal

Protection Act, the U.S./Canada Pacific Salmon Treaty and other international treaty obligations.

NMFS' primary responsibility is the management of the Nation's marine resources. If NMFS is to make rational management decisions, it must have high quality current data upon which to base those decisions. However, the Administration's proposed 38% reduction budget request from research funds available in FY 88, and complete termination of state grant programs providing needed management data on regional bases, will eliminate that capability. In addition, the Administration proposal to significantly reduce support for NMFS research vessels, would further hamper collection of management data. If approved, these cuts would elminate NMFS' ability to make rational fishery management decisions, resulting in an impotent agency, incapable of meeting Congressional mandates. Thank you, Mr. Chairman, and I would be happy to answer any questions.

Testimony of

Gary B. Melton, PhD
Carl Adolph Happold Professor of Psychology and Law
Director, Center on Children, Families, and the Law
University of Nebraska-Lincoln

on the Subject of the

CONSORTIUM ON CHILDREN, FAMILIES, AND THE LAW

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to provide testimony about the Consortium on Children, Families, and the Law. The Consortium is composed of interdisciplinary centers at six universities, affiliated faculty at other universities, and several non-academic centers, in several instances affiliated with national professional organizations. The Consortium is intended to conduct and promote interjurisdictional research, training, and policy consultation on topics related to children, families, and the law. A more detailed description of the Consortium and the activities that we plan is included in the appended prospectus. In this testimony, I will provide an overview of the the Consortium and the rationale for federal support.

Few would question the profound significance of the legal issues related to child development and family life. Child abuse and neglect...divorce...juvenile delinquency...Baby Doe cases...access to health care...access to special education...adolescent pregnancy.... The issues read like a

litany of the most serious, most controversial, and perhaps most complex social problems of our time. Added to these major legal dilemmas is the significance of legal socialization--training children and youth to become legal decision makers in a democratic society and to appreciate the role of law in sustaining the fundamental values of our society. Moreover, through areas of law typically not conceptualized as "family law" (e.g., zoning, taxation, estates), the law defines the nature of a family and develops structures that enhance or impede the growth of various family forms. Indeed, probably no other social institution more directly affects the family as an institution than the law.

Most of the major issues related to the relationship between the law and the well-being of children and families are of recent origin. Only two decades have passed since the Supreme Court first declared minors to be "persons" under the Constitution and opened the door to consideration of the limits of minors' liberty and privacy. Major developments in the economic relationships within the family, the presumptions in child custody decision making, and the application of state jurisdiction in cases of alleged child maltreatment are even more recent. As a result, many of the most important issues in the law affecting children and families still are unsettled.

Although some of the most critical issues related to children, families, and the law are primarily matters of state law,[1] the federal government has a particularly important role to play in advancing work on such topics. In such an unsettled area of fundamental importance for the well-being of the society, the federal government can stimulate and disseminate research that will provide information that states need to adopt policies

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[1]Of course, child and family policy is not just a matter of state law. In fact, one of the major shifts in the law affecting children and families has been "constitutionalization" of the relationship among child, family, and state.

consistent with their goals of supporting family integrity and promoting the welfare of children.[2]

Indeed, the federal government is uniquely able to play such a role. To provide the information that the states need to develop legal structures that support family life and enhance the well-being of children and youth, research must be both interdisciplinary and interjurisdictional. The interdisciplinary approach is necessary because the assumptions that underlie child and family policy are largely social and behavioral, but a solid foundation in the law is required to pose the questions and disseminate the results in a manner useful for policy making. Therefore, most of the major scholars in family law are either social scientists adept at "thinking like a lawyer" or lawyers sophisticated in social science theory and empirical research. Given the need for such interdisciplinary expertise and the complexity of the interests at stake in child and family policy, there are few scholars expert in the area. The federal government can facilitate policymakers' access to those scholars and interchange among the scholars themselves, and it can support training of new researchers.

A leadership role of the federal government also is necessary because research on the effects of various legal policies affecting children and families requires an interjurisdictional approach. For example, many states have adopted new procedural and evidentiary rules in child abuse cases. Determination of the effectiveness of the various alternatives requires comparison of the approaches that the states have taken.

The Consortium on Children, Families, and the Law is

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[2]Of course, the federal government has assumed a leadership role in child and family policy in the past 15 years through the Child Abuse Prevention and Treatment Act and the Juvenile Justice and Delinquency Prevention Act. The Consortium will facilitate work in these "traditional" areas of child and family policy, but it also will foster new ways of understanding the diverse ways that the law affects family life and child development.

especially well equipped to meet such federal concerns in the welfare of children and families. Each member center is interdisciplinary in approach, and most of the individual faculty members are sophisticated in psycholegal or sociolegal studies. Moreover, the states that are involved in the Consortium are diverse in region, politics, ethnicity, and rural-urban mix. The Consortium is structured to provide interjurisdictional comparisons on important innovations in child and family policy and to do so cost-effectively. In contrast to the usual high cost of multisite research, the Consortium will have an ongoing means of collecting data on a cross-jurisdictional basis. For that reason alone, it is likely to produce and disseminate substantially more knowledge than would occur with a comparable investment in individual studies. The Consortium also will have an important downstream effect, in that it will provide opportunities for students to interact with most of the outstanding scholars in the field.

The leaders of the various centers in the Consortium all are distinguished scholars, who collectively have garnered numerous awards, presided over several professional societies, and published literally hundreds of scholarly publications. Equally important, they are committed to application of their scholarship in the policy arena. They spend much of their time with state legislatures, federal agencies, judicial colleges, and practitioner groups in order to facilitate the development of policy-relevant research questions and to disseminate existing knowledge.

To ensure such interaction in the Consortium per se, several non-university-based centers will be assisting us: e.g., the Youth Law Center (San Francisco), the American Bar Association's National Legal Resource Center for Child Advocacy and Protection, the American Psychological Association's Public Interest Directorate, and a blue-ribbon Judicial Advisory Council chaired by Justice Brennan and affiliated with the Center for the Study

of Youth Policy at the University of Michigan (one of our member centers). Half of the Consortium's advisory board will consist of practitioners and policymakers, and each center has substantial interaction with legislators and administrators in its state. We will involve additional national associations of state officials in our conferences and workshops.

With interdisciplinary and interuniversity collaboration among the most outstanding scholars in children's law and family policy, the Consortium is ideally suited to develop new ways of approaching the complex problems of child development and family life. In that regard, we have adopted five broad themes that cross areas of law and disciplines in the social and behavioral sciences: (1) creating new legal settings for children and families; (2) using law to shape healthy behavior in children and families; (3) legal responses to changes in family life; (4) legal responses to biotechnological developments; (5) the experience of law in the everyday lives of children and families. Each year one or more specific themes derived from these broad themes will be the focus of Consortium activity. However, we expect the overall work to be much greater, because the interchange among scholars and students at the various institutions will itself create ideas for new research and collaboration in ongoing research and training programs.

In short, with appropriate support, the Consortium is likely to have great impact on understanding of the critical legal-policy questions affecting the well-being of children and families. That impact is likely to be both short- and long-term. By providing opportunities for the major scholars in the field, across disciplines, to conduct research and train graduate students together, the Consortium promises to provide substantial new knowledge that will facilitate legal policies and structures that will promote family integrity and child welfare.

PROSPECTUS

CONSORTIUM ON
CHILDREN, FAMILIES, AND LAW

December 1987

INTRODUCTION

Although academicians and professional service providers from innumerable fields are acutely aware of the problems plaguing our youth and their families, effective responses have been few. There are three possible reasons that we have been unable to substantially penetrate the myriad issues involving children and families. First, social, psychological, educational, economic, and legal issues affecting children and families have traditionally been separated from one another and viewed within single, disciplinary frameworks. The single framework response to complex, multidisciplinary issues has not, and is not likely to emerge, as the most productive approach to grappling with child and family concerns. Moreover, researchers undertaking empirical examinations of these issues have been limited in their practical ability to conduct their work in more than one jurisdiction. Consequently, our knowledge about many child/family issues is a patchwork of individual perspectives, without adequate integration within or between disciplines.

Second, academics who specialize in studying and teaching about issues related to children and families have not been as effective as they might be in producing research that is of interest to and consumable by policymakers. Part of the problem is a result of lack of access to policymakers, but part of it is that university faculty tend to orient their efforts to their peer group, not to legislative or executive governmental officials or to court officials. Practitioners see the problems daily, but besieged as many of them are, they have neither the time nor resources to collect systematic information to reveal the extent and nature of the problems, nor are they in an advantageous position to develop multi-faceted policy responses to these problems.

Third, graduate students learning their trade, and who are trained by the academics and who gain their practical experience under the supervision of the practitioners, typically are well-versed in relevant social science and legal theory, in the conduct of academically-appropriate research, and in providing the state-of-the-art clinical services. However, they typically are not as well-trained in thinking about their work and producing products in manners that will be particularlt useful to policymakers responsible for broad-scale changes that might ultimately ameliorate the problems.

In an effort to change this state of affairs, some academic researchers and child/family service professionals have independently changed the way in which they approach their work. For example, a handful of researchers have altered their research methodologies and communication

practices in order to undertake research of use to policymakers. They also have begun publishing their research in forms and in forums likely to attract policymakers attention. Likewise, applied programs or curricula have been developed in several universities. However, like much academic activity, these efforts have been conducted in isolation, with little cooperation between institutions.

In the course of professional contacts, faculty from several institutions realized that they were pursuing objectives that might be more effectively met by coordinating their activities with one another. After considerable informal conversation and correspondence, it was decided to develop a formal entity that would serve to coordinate applied research and training activities related to policy and legal issues affecting children and families.

Representatives from Stanford University, State University of New York at Buffalo, University of Hawaii, University of Michigan, University of Nebraska-Lincoln, University of Pittsburgh, and University of Virginia have agreed to develop a Consortium on Children, Families, and Law (hereinafter referred to as Consortium). Part of the rationale for pursuing the development of the Consortium is the realization that basic and applied research efforts might be more productive if there were a means to efficiently facilitate multi-jurisdictional collaboration and comparison; part is the belief that interdisciplinary and inter-institutional training experiences would facilitate the development of exceptional scholars and persons who effectively inform and make policy.

PURPOSES

The Consortium will serve to coordinate the network of Participating Institutions that are interested in working together for the following purposes:

> To facilitate the conduct of independent and collaborative Research on the aforementioned issues. Although it is recognized that much of this research will be basic research, where possible, it is our goal to disseminate our research in forms that will allow policymakers, governmental decisionmakers, and practitioners to take appropriate Action.
>
> and,
>
> To provide graduate level Training in Child and Family issues where such issues have Legal and Public Policy significance;

Thus, it is intended that the Consortium will be involved with basic and applied (particularly "Action Research") research, in the dissemination of knowledge in consumable forms for practitioners and policymakers, and in graduate education that cannot otherwise be delivered by a single university or program.

It also is the goal of the Consortium to help facilitate the interaction of faculties and students from

diverse disciplines within each Participating Institution as well as between Participating Institutions. An area as complex and diverse as issues confronting children and families requires a multiplicity of perspectives in order to facilitate a rich understanding of the phenomena involved. Particularly when an ultimate goal is to affect policymaking, the research endeavor requires multidisciplinary input similar to that required by the act of policymaking itself.

Each Participating Institution is developing a Center for the Study of Children, Families, and Law (hereinafter referred to as Center) that will serve as a local focal-point for research, training, and consultation activities at each Participating Institution. The Centers will also coordinate the activities of each Participating Institution with the Consortium. Our experience with these Centers to date suggests that they will function as a magnet within each Participating Institution, drawing together interested faculty from multiple disciplines and community officials from multiple agencies (e.g., representatives from state and local government, health and social service agencies, the judiciary, and so on).

TRAINING AND RESEARCH

Overview. The goals of providing training and conducting research are inextricably interrelated in the model adopted by the Consortium. We want to include students in the basic and applied research activities, and we want to expose them to the processes and vaguries of policymaking.

When appropriate, it is anticipated that applicable research will result in a product of use to policymakers. The wording of policy reports must enhance the likelihood of policymaker consumption. Although we will not eschew the standard products of academic policy research (i.e., scholarly publications), we are very interested in developing effective communications that will facilitate policymaker consideration and adoption. Much of the Consortium's training and related research will be designed to produce Action Products. By "action products," we refer to research outcomes that directly address policy concerns and that yield information that is directly relevant to policy debates. Thus, action research is intended to provide data that will result in social, legal, legislative, educational, or political interventions. In keeping with this emphasis, student training undertaken under the auspices of the Consortium will focus upon action research training, since most institutions adequately train students in basic research methods, applications, and data dissemination. Rather than classroom exercises, students will be learning to conduct relevant policy research by doing policy research under the intensive supervision of faculty members affiliated with the Consortium.

Analytical (e.g., examinations of the development of legal doctrine) as well as empirical research approaches will be used. The Consortium members do not advocate one approach over the other. (In fact, it is likely that in most instances both approaches will be employed.) What the

Consortium members do stress, however, is the development and use of approaches that will enhance the eventual achievement of action-oriented products that will be useful for practitioners, policymakers, and decisionmakers.

Consortium Themes. In its research, training, and action activities, the Consortium will focus upon issues that are in the forefront of public debate and scrutiny or are about to become so. Each year, the Consortium will select a broad theme upon which to focus. Examples of topics that were discussed as potential Consortium Themes included:

1. Creating new settings and establishing new institutional and procedural mechanisms to handle legal problems confronting families and children.

2. Shaping healthy behaviors in children and families.

3. Responding to changes in structures of families and the manner in which families are created.

4. Emerging issues in response to advances in biotechnologies.

5. Experiencing law in everyday life.

The Consortium Themes are quite broad. Related to each theme are several topics that might be examined. As an example, the first theme is elaborated here.

Creating New Settings and Establishing New Institutional and Procedural Mechanisms to Handle Legal Problems Confronting Families and Children.

Within the context of this theme, the Consortium might decide to focus upon topics related to the structural form of justice delivery systems and/or dispute resolution systems that service children and families. Or, there might be an effort to create a community-based intervention program to deal with the debilitating effects of adolescent substance abuse.

Justice Delivery Systems: There are changes being discussed, and in some jurisdictions implemented, in states' juvenile codes. What purposes are served by having a an independent juvenile justice system? Does it fairly shield juveniles from the consequences that they might face if they were to be under the jurisdiction of to the criminal justice system? Does it serve to facilitate the delivery of services to adolescents without the formal constraints encumbering other justice systems? Are the problems of an independent justice system a result of the structure or its implementation? What kinds of changes have reform jurisdictions implemented? What were the bases for their changes? How have their efforts fared?

Dispute Resolution Systems: How do families resolve problems that face them? How do changes in the law affect the ways in which families confront their problems? For example, do changes in emancipation statutes enable families to opt for legal emancipation as a socially-sanctioned technique for intra-family dispute resolution? Are courts

the best-equipped institution to handle problems that arise from surrogate parenting disputes? Are existing systems able to handle problems that arise due to biotechnological advantages that affect the family (and even the possibility of family)? How can ADR (alternative dispute resolution) techniques be implemented in the family dispute area?

Community-based Substance Abuse Programs: What type of intervention strategies have worked to reduce the incidence of abuse? Can the problem of abuse be separated from socio-economic and mental health factors? Can empowerment strategies be used to substitute other activities for substance use? How can the judiciary -- or judicial substitutes -- be used to promote public health? Are there ways to coordinate the educational, health, legal, and political communities to develop and initiate broad-based, deep-penetrating intervention programs?

Research. Research efforts will be the foundation of Consortium activities. Clearly, considerable research will take place as part of the Fellows training/Summer Workshop sessions (see *infra*). Nevertheless, it also is anticipated that Consortium faculty will be conducting collaborative research related to the Consortium theme.

In addition, we want the Consortium to be able to encourage faculty to conduct child and family research even if it is not directly related to the Consortium theme. We believe that a major benefit of establishing the Consortium is to encourage and facilitate the research collaboration of faculty and students from Participating Institutions. Although at times there will be considerable involvement of other Consortium participants in faculty research and consultation, there is no expectation that the involvement of others is mandatory.

For example, an instance in which an investigator may wish to involve researchers from other Participating Institutions would be where the research would benefit from multi-jurisdictional data (e.g., where a legal or policy question would be informed by a cross-jurisdictional assessment). In such a situation, the Consortium will serve to facilitate data collection from the other participating institutions' jurisdictions. Similarly, where sampling would be enhanced by inclusion of research participants or records from multiple jurisdictions, then Consortium members might agree to undertake reasonable efforts to facilitate access to subjects or records (or they may see to it themselves that the necessary data are collected).

Thus, the Consortium is designed to provide easy-access to multi-jurisdictional research through the cooperation of each institution, and it also is designed to facilitate inter-university collaboration in instances that collaboration is desired. It is hoped that each Participating Institution's Center will create a Research Assistant or Associate position for the purposes of helping Center participants with their research efforts and assisting in multi-jurisdictional research conducted through the Consortium.

Training. The Training component of the Consortium is designed to bring together one or two advanced graduate

students (including joint degree students as well as straight Ph.D., J.D., M.S.W., and other professional degree students) from each Participating Institution, during the summers, to participate in action research on a preselected Consortium Theme. These six to twelve students will form a Study-Training-Action Fellows group (hereinafter referred to as Fellows).

The Consortium Fellows will spend approximately 6 weeks together during the summer participating in a Summer Workshop. During that time, the Fellows will travel to some (or, in certain years, they may go to all) of the Participating Institutions for intensive study and research on the Theme. The topics that will be addressed during the Summer Workshop will be extensively discussed during a three day Pre-Conference.

The Summer Workshop sessions will begin with the three day Pre-Conference to be hosted by one of the Participating Institutions. During the Pre-Conference, the issues to be examined during the Summer Workshop will be set out, background materials and briefing papers (developed during the academic year) will be distributed, and focus problems will be created. The Fellows then will go about developing solutions to the problems, with the results of their efforts to be disseminated at a Consortium Conference to be held during the late summer or early fall.

The Fellows will work together as a problem-solving team. They will meet with faculty from the Hosting Participating Institutes for intensive seminars/briefing sessions and classes. In addition, the Fellows will conduct necessary empirical and analytical research to answer the policy questions posed at the Pre-Conference

Student-Faculty Participation. Faculty from each Participating Institution may vary from year to year, depending upon the issue(s) under examination. For example, examinations of ethical issues associated with health care delivery systems servicing families and children might involve faculty from the philosophy department and medical school along with faculty from the psychology department and law school whereas investigations of media issues might involve faculty from communications and education in addition to the law and psychology faculties.

Different students will serve as Fellows each year. This policy will ensure that the benefits of participation in the Summer Workshop will be available to a large number of trainees. Except in unusual circumstances, only upper level graduate students will be eligible to become a Fellow. Student selection will be the responsibility of each Participating Institution through its Center unless different selection procedures are agreed upon by the Consortium Board of Directors. It also is anticipated that each Center will undertake its own formal and/or informal training activities during the academic year.

The faculty and students from the different Participating Institutions will keep in contact and consult with one another during the academic year through telecommunication conferences to be held bi-monthly. The

focus for the teleconference will be a presentation (i.e., colloquium), after which there will be discussion, debate, and so on. The telecommunication conferences will allow the Consortium to be a dynamic entity; participants will be in communication with one another and have access to one another' ideas and perspectives despite the great distances separating the Participating Institutions from one another.

Conference. A Consortium Conference will be held in the late summer or early fall. The Conference will be the major event organized by the Consortium. Political, legislative, and judicial officials, academics, and other policymakers, governmental officials and representatives from policy groups (e.g., state agencies, National Council of State Legislators, National Association of Counties, etc.) will be asked to participate when appropriate. The Conference will feature the Consortium Fellows, however. The Fellows will present the research products that came out of their Summer Workshop activities. It is expected that in the wake of the Consortium Conference further research will be planned and conducted.

BENEFITS OF CONSORTIUM

The Consortium is designed to encourage and facilitate research and training collaboration and cooperation among seven institutions that house some of academia's most illustrious researchers of children and family issues. Although the individuals within these institutions are engaged in productive research activities and effective student training, we believe the potency of the research and the strength of the training can be enhanced through the networking activities described in this prospectus.

One of the greatest research benefits is the ability to conduct multi-jurisdictional examinations of present practices or innovations. Potential collaborators will be in place in geographically and politically diverse jurisdictions. The faculty at each of the Participating Institutions have a long history of working closely with their respective state and/or local institutions.

Not only should Consortium investigators be able to produce action research products, they also should be able to influence local and state changes. The potential for considerable impact on policymaking exists because of the reputation and credibility that each of the Participating Institutions possesses individually; taken together, the Participating Institutions, through the Consortium, should be quite influential. It is anticipated that the Consortium will facilitate access to data and records that reflect different policy approaches to problem-solving. Under the auspices of the Consortium, policy changes can be manipulated so that changes can be implemented systematically, and the effect of changes can be carefully assessed. There will be an ongoing process of assessment, intervention, evaluation, intervention, evaluation, and so on. Research validity, both internal and external, will be enhanced, and the ability to have national significance will be increased.

Insofar as training is concerned, the Consortium should have considerable positive impact. As strong as each Participating Institution is in training their graduate students in conducting policy research and evaluations, there is no way that any one institution could provide the kinds of experiences and access to faculty and public officials as can the Consortium. The Participating Institutions will provide a wide-variety of highly skilled, extremely accomplished professionals who represent a large range of disciplines and perspectives that are involved in informing policy.

Student Fellows will be able to work with different faculty, and they will have the benefit of learning various policy viewpoints and problem-solving approaches. Because Fellows will travel to the different Participating Institutions as part of the Summer Workshop, they will have an opportunity to take advantage of the different resources available from each of the Participating Institutions. Fellows will also have the advantage of one another. The Fellows will bring their own unique perspectives, training, and policy approaches to the activities, and they should all benefit from their diverse backgrounds. Following six weeks of collaborative efforts, the Fellows are likely to develop a network of their own. This type of network not only could benefit them in the rest of their graduate studies, it also could continue on into their professional lives.

National Bicentennial Competition on the Constitution and Bill of Rights

cosponsored by the Commission on the Bicentennial of the United States Constitution
and funded by an act of Congress

WRITTEN STATEMENT OF CHARLES N. QUIGLEY
ON BEHALF OF THE CENTER FOR CIVIC EDUCATION
In Support of the
NATIONAL BICENTENNIAL COMPETITION ON THE
CONSTITUTION AND BILL OF RIGHTS

Two hundred years ago, the 13 original colonies were engaged in serious debate in the process of ratifying our Constitution. From its inception, ours has been a country in which matters of significance are the subject of such democratic processes involving citizens and their representatives. It is, thus, fitting that this Committee of the 100th Congress consider a program that is educating our young people, the decisionmakers of tomorrow, about the Constitution and the continuing responsibilities of citizenship. I am Charles Quigley, executive director of the Center for Civic Education, and I appreciate this opportunity to report on the nationwide high school program that is the National Bicentennial Competition on the Constitution and Bill of Rights.

Achievements in the First Year
of the National Competition

The National Competition is the most extensive educational program in the country developed to educate young people about the Constitution and Bill of Rights during this our bicentennial celebration. It has the capability to reach every elementary and secondary school student in public and private schools in the nation.

Last month marked the successful completion of the

first year of nationwide implementation of the National Competition at the high school level. With the support of the Congress, active involvement of Senators and Representatives, and efforts of hundreds of civic and education leaders, the program achievements exceeded our projections:

- Over 500,000 students have studied the curriculum.
- Over 6,000 teachers are teaching the course.
- Over 410 congressional districts have fully functioning programs.

I am pleased to report that 80 Senators and 380 Members of the House of Representatives personally assisted in the successful implementation of the program in its first year.

Program of the National Competition

The principal components of the program include a specially prepared six-week course of study designed to provide high school students with a fundamental understanding of the Constitution and Bill of Rights and the principles and values they embody. Students complete the instructional portion of the program with a test designed to measure their "constitutional literacy" and receive a certificate of achievement signed by their Members of Congress.

Thereafter, classes can enter a nationwide series of competitions through mock hearings at the congressional district, state and national levels. A unique aspect of this program is that entire classes compete as teams as the competition proceeds, ensuring that all students have the opportunity to participate rather than just a select few. No other competition of this kind is providing this type of experience to classes of students. The competition is designed to measure understanding and capacity to apply the

principles being learned to historical and contemporary events.

This year, the 1988 National Competition culminated in three days of intensive competition among classes representing 43 states. Over 900 students participated. I would be delighted to report to this Committee that the class from Stall High in Charleston Heights, South Carolina; or from Exeter Area High in Exeter, New Hampshire; or Gulfport High in Gulfport, Mississippi; or from Lincoln High in Portland, Oregon; won the national competition. In fact, each of these classes competed well and should be a source of great pride to their states. This year's competition finalists included classes from North Miami High in North Miami, Florida, and Trumbull High in Trumbull, Connecticut. The three top finishers were the classes from Gompers High in San Diego, California; East Brunswick High in East Brunswick, New Jersey; and Half Hollow Hills East High in Dix Hills, New York.

The Need for the National Competition

The need to educate our young people about the Constitution and Bill of Rights is well documented. In a recent survey of high school students conducted by the staff of the Center for Civic Education, we found that:

- Seven out of 10 students did not know that in the American political tradition, governments derive their authority from the consent of the governed.

- Two out of three students did not know the essential differences between constitutional and dictatorial governments.

- Six out of 10 students did not know the meaning of due process of law.

- Two out of three students did not know the importance of the Magna Carta.

In general, students do not have a clear understanding of the

basic principles of republicanism, of constitutionalism, or even of the role of the Supreme Court.

This survey confirms previous findings that, for example, only slightly more than half of us identify the original purpose of the Constitution--almost half of us believe the Constitution was intended to create the 13 original states, to declare independence from England or to name George Washington the President. Nearly half of students surveyed last year thought that the President could appoint the Members of Congress and one-third thought he could adjourn Congress when he saw fit. Indeed, a recent survey conducted on behalf of the Hearst Corporation suggested that over half of Americans thought that the Marxist credo "from each according to his ability, to each according to his need" can be found in the Constitution. Most alarming was the finding that a greater proportion of today's students display anti-democratic attitudes than did students in 1952.

Impact of the National Competition

I am pleased to report that the opportunities for education provided by this bicentennial period are being utilized to make a difference. One need only talk to some of the thousands of students and teachers participating in the first year of the National Competition to see the change, the increasing constitutional literacy of our young citizens. Their performances in district and state competitions and in last month's national competition finals were outstanding. Students debated the issues that concerned the founding fathers and demonstrated how the Constitution's basic principles apply to them today with an extraordinary level of understanding, as our national judges observed and commented.

The Educational Testing Service of Princeton, New Jersey, recently conducted a nationwide study of the effect of the program. The study showed that students completing the instructional component of the National Competition score significantly higher then fellow students in terms of knowledge and appreciation of the Constitution, its history and principles. Based on what the former Chief Justice has called a "splendid text," the National Competition is an essential element in the effort to leave as the lasting legacy of this bicentennial celebration the education of our citizenry.

Senators and Representatives who have attended competitions have indicated how impressed they are at the knowledge and understanding of the Constitution displayed by the competing students. Community leaders are joining together to provide necessary accommodations and assistance for the district competitions. Many teachers have told us that this particular competition is the most valuable educational, competitive event in which they have participated.

Most importantly, students have reported that the National Competition provides them with stimulating and exciting opportunities to demonstrate their knowledge of the Constitution and to debate the important issues of our time. For many students, attending the state and national competitions have been once-in-a-lifetime experiences. For many of these students, it was also the first time they have been on an airplane or stayed in a hotel or visited their state or nation's capital.

The extent of participation by students and educators in the first year of the National Competition is

testimony to the value of this educational program and the desire of elected officials, community leaders and educators to provide our young people with an opportunity to gain an understanding of the rights and responsibilities of citizens in our constitutional democracy. Classes returned home from the National Competition to be honored by their towns and cities.

Expanding the National Competition in FY 1989

With the authorization of title V of Public Law No. 99-194, Congress directed the Commission on the Bicentennial of the U.S. Constitution to "implement an annual national bicentennial Constitution and Bill of Rights competition" for elementary and secondary schools. Through its appropriations, Congress has shown its commitment to educating this nation's young people about the principles that underlie our government. A result of these congressional efforts, the National Competition is now operating successfully in all 50 states and the trust territories.

The American Association of School Administrators, American Civil Liberties Union, American Federation of Teachers, American Lawyer's Auxiliary, Council for American Private Education, Council for the Great City Schools, Council of Chief State School Officers, General Federation of Women's Clubs, League of Women Voters, Mexican American Legal Defense and Education Fund, National Association for the Advancement of Colored People, National Association of Attorneys General, National Association of Counties, National Association of Towns and Townships, National Conference of State Legislators, National Council for the Social Studies, National Education Association, National School Boards

Association, Social Studies Supervisors Association, U.S. Chamber of Commerce and others have all lent support and assistance.

In light of the overwhelmingly positive results of our first year of implementation, I respectfully request that the Congress fund the National Bicentennial Competition on the Constitution and Bill of Rights in fiscal year 1989 at least at the level of $2,993,000 requested by the Administration. (Executive Office of the President, Office of Management and Budget, Budget of the United States Government FY 1989, Appendix I-Z40.) The budget for the program requires a total annual commitment of over $25 million for nationwide implementation, but less than $3 million was requested in direct federal financial assistance. The bulk of the program's costs are being provided from public and private sources at the state and local levels. State and local direct and in-kind contributions means that this federal financial assistance is leveraged by a factor of almost ten-to-one. By funding this type of bicentennial activity, the Committee is playing a catalytic role in bringing programs to students that can make this bicentennial period meaningful and its impact lasting. In fiscal year 1989, the program will be extended to the junior high school and elementary school levels. This will, in essence, triple the participation in the program nationwide.

Need for Advanced Teacher Training

During the course of the program this year, we observed that classes fortunate enough to have knowledgeable teachers had a distinct advantage over other students. In the national competition, we noted a number of teachers whose

grasp of the subject and preparation of their students was excellent--they were truly master teachers.

Unfortunately, teachers who are highly knowledgeable about the Constitution at the high school level are not the norm. There is, thus, a critical need to train teachers about the Constitution. There is a need for a new program, the establishment of a National Institute on the Constitution for Master Teachers. With the assistance of the existing network of state and congressional district coordinators of the National Competition, we could begin by identifying one master teacher at the secondary level from each of the 435 congressional districts, the trust territories, and the District of Columbia. Each summer these 440 master teachers would be brought to Washington, D.C., to attend an intensive two-week seminar on the Constitution and how to teach it. During the following academic year, each of these teachers would then provide instruction based upon what they have learned in the summer program to a minimum of 30 teachers at the elementary and secondary level within their home districts. Proper and timely implementation of this peer training will significantly improve the quality of instruction in constitutional and civic education across the country.

Conclusion

Constitutional democracy places greater demands on its citizens than other forms of government. Jefferson warned "if you expect a nation to be ignorant and free, you expect what never was and never will be." The citizens of a constitutional democracy must understand the principles of the political system that protects their freedom and base their political conduct on a firm commitment to those

principles. To be without an understanding and informed appreciation of the accomplishments of the founders is to be deprived of an essential part of one's heritage as an American. It is only through education that citizens can acquire the understanding of and commitment to the principles of constitutional democracy that the founders recognized as the essential prerequisite of free government.

We appreciate all that the Chairman and this Committee have done for the National Competition. The Congress has provided us with a precious opportunity. We are aware of the responsibilities that accompany this public trust and are dedicated to their exemplary fulfillment. Our experience in developing programs on the Constitution and Bill of Rights for elementary and secondary schools over the past 23 years and, in particular, our experience in the development, field testing and implementation of this National Competition convince us of its potential for engendering an understanding that will foster among our youth a reasoned commitment to constitutional principles and values and to the preservation and improvement of our free society. In this way we are seeking to fulfill the vision of James Madison when he wrote: "What spectacle can be more edifying or more seasonable than that of liberty and learning each leaning on the other for mutual and surest support."

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COMPETITION FACTS

Nationwide coordination of the National Bicentennial Competition requires the assistance of hundreds of civic and education leaders across the country. The five-year program will be taught by thousands of teachers and has the capacity to reach nine million young people each year.

The following statistics reflect the range and scope of national involvement in the Competition to date.

50	state coordinators have organized the program in their states.
5	coordinators for the trust territories and the District of Columbia have organized the program in their areas.
412	congressional district coordinators are working with local schools to implement the program in their districts.
40	consultants are providing teacher training across the country.
80	U.S. Senators have agreed to participate in the Competition.
380	U.S. Representatives are taking part in the program in their districts.
6,000	teachers are implementing the Competition curriculum this school year.
500,000	high school students are studying the program this year.
4,000	free sets of classroom materials have been distributed.
1,100	extra sets have been purchased to date.

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ORGANIZATIONS SUPPORTING THE NATIONAL BICENTENNIAL COMPETITION

January 1988

American Association of School Administrators

American Federation of Teachers

American Lawyer's Auxiliary

Council for American Private Education

Council for the Great City Schools

General Federation of Women's Clubs

Mexican American Legal Defense and Education Fund

National Association for the Advancement of Colored People

National Association of Attorneys General

National Association of Counties

National Associationof Towns and Townships

National Conference of State Legislators

National Council for the Social Studies

National Education Association

National School Boards Association

U.S. Chamber of Commerce

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Additional Material on File With Subcommittee

The Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies also received written testimony from the following organizations and individuals. The testimony will not be printed in the record and is on file in the subcommittee's office.

Father William J. Sullivan, S.J. regarding the Seattle '90 Goodwill Games.

Chancellor Martin C. Jischke of the University of Missouri in Rolla regarding National Bureau of Standards and its program of Centers for the Transfer of Manufacturing Technology.

Charles Sullivan of the Citizens United for Rehabilitation of Errants regarding Bureau of Prisons.

Questions Submitted to Other Agencies

In view of a curtailed subcommittee hearing schedule, Members of the subcommittee submitted questions to some of the Commissions and Agencies who did not formally testify. By direction of the Chairman, those questions and the agency responses have been printed in the record.

(The questions and answers follow:)

FEDERAL COMMUNICATIONS COMMISSION

Questions Submitted by Senator Ernest F. Hollings

FY 1989 Request

Question. FCC's FY 1988 appropriation was $99,613,000 and the FY 1989 proposed budget is $104,700,000, for an increase of $5,087,000. The budget submission (p.i) states that in formulation of this budget you began with the "base budget" FY 1988 appropriation request of $103.8 million. This allowed restoration of base budget funding in many budget categories without apparent justification. Therefore, you only justify an increase of $876,000 in this budget rather than an increase of $5,087,000. Can you indicate either improvements in pe formance, pressing needs, or anything else that would explain such an action?

Answer. The appropriation received by the Commission for FY 1988 was nearly $6 million dollars less than we needed to meet essential program needs. This shortfall includes absorbing the increased costs resulting from the FY 1988 federal pay raise with adjustments to the lower than projected costs for the new Federal Employees' Retirement System (FERS).

To meet this large shortfall we delayed our efforts to fill over 100 vacant full-time permanent positions and we implemented further hiring restrictions on new vacancies to reduce expenditures $1.8 million. We also reduced our non-personnel accounts by $3.7 million. And finally we made up $400,000 of the shortfall with funds carried forward from FY 1987.

These measures were feasible on a short term basis. However, to make these reductions in our budget permanent would severely jeopardize the Commission's ability to meet its mission. In FY 1989 we will need to fund the annualized cost of the FY 1988 federal pay raise, additional FERS costs, meet within-grade and merit pay increases and cover the annualized costs of a large increase in the cost of health benefits experienced in FY 1988. We will require an additional $2 million in increased personnel costs just to maintain our current FTE level. In fact, we currrently estimate that our FTE level in FY 1989 will be slightly below what it will be for FY 1988.

In our budget request for FY 1989 we are asking for restoration of approximately 55% of the reductions we made in FY 1988 to our non-personnel accounts. The reductions we made delayed the acquisition of critically needed equipment as well as the implemention of some new initiatives such as a more efficient means of storing and retrieving our docket files. We made reductions to those areas where spending was most discretionary, mainly for the purchase of equipment. We did not by the tools that we need to improve our efficiency and meet our responsibilities effectively. To continually forego the replacement of aging and obsolete equipment would place the accomplishment of our objectives in jeopardy. However, we recognize the necessity for controlling the federal deficit, and after carefully reviewing all of our expense areas we determined that we could meet our primary mission objectives by restoring slightly more than half of the reductions imposed in FY 1988.

OFFICE SPACE AND CONSOLIDATION

Question. The FCC currently leases space at 1919 M Street and 2025 M Street, N.W. Washington, D.C. What is the status of FCC continuing to lease these locations in FY 1989?

Answer. The lease for FCC space at 1919 M Street expired October 10, 1988. GSA is attempting to negotiate a five year lease with termination rights after three years. The lease of 2025 M Street expires December 29, 1988. GSA will attempt to negotiate a lease which includes lease terms similar to those negotiated for 1919 M Street. The FCC also leases space at 2000 L Street, N.W. On March 31, 1988, GSA executed a lease for this space which is for a period of five years with termination rights after three years.

Question. How much rental was paid for the space at 1919 and 2025 M Street in 1987, and what is the expected rental for 1988 and 1989?

Answer. Rental cost for FCC space at 1919 M, 2025 M and 2000 L Streets, N.W., for FY 1987 through FY 1989 is displayed as follows:

	1987 Actual	1988 Estimate	1989 Estimate
1919 M	$4,562,233	$5,489,470	$5,558,852
2025 M	1,623,094	1,909,563	1,933,840
2000 L	622,456	741,369	741,532

Question. Provide for the record the status of negotiations with GSA for moving the FCC into consolidated workspace. Include data on the rental purchase costs, relocation cost, etc., that the FCC will have in FY 1989. Are these costs reflected in this budget?

Answer. The FCC is actively pursuing the consolidation plan. We are working closely with the General Services Administration (GSA) to develop specifications and provide the necessary information to issue a Solicitation for Offer (SFO).

GSA estimates that an SFO will be issued sometime late this summer and that the actual move will not take place until late 1990.

We are developing a Memorandum of Understanding (MOU) which outlines GSA and FCC responsibilities for funding various segments of the consolidation project. Once funding responsibilities are determined, the FCC will prepare a Budget Amendment for consolidation expenses anticipated in FY 1989.

Question. In the past few years, FCC has alluded to plans to relocate and consolidate its Washington, D.C. offices now located in three buildings into one building, for efficiency, security, and other reasons. Your current budget submission makes no mention of relocation and consolidation plans. Is relocation still planned by you and if so, when will it occur? Also, what do you estimate relocation costs to be?

Answer. The FCC is actively working with GSA to develop specifications for a single building which will house Washington, D.C. offices now located at 1919 M, 2025 M Streets and 2000 L Street, N.W. The General Services Administration (GSA) has established a multi-disciplinary group to work with the FCC in planning for this major relocation. Their preliminary schedule estimates that a Solicitations for Offers (SFO) will be issued late this summer and that the actual move will take place late 1990.

At present, we do not have any information on relocation costs. We are currently reviewing a draft Memorandum of Understanding (MOU) which details

GSA and FCC funding responsibilities for various segments of the consolidation project. Once funding responsibilities have been determined, we will work closely with GSA to prepare a budget amendment which accurately identifies projected costs. Due to the costs involved, and funding shortages described earlier, consolidation is contingent upon enactment of a budget amendment.

OPTICAL IMAGE PROCESSING SYSTEM

Question. The budget (p. 117) states that the Dockets reference room will be equipped with a computer-controlled optical image processing system, Phase I of a multiphase project to improve records management and public access to records throughout the Commission. Because of the pressing need to improve this area in FCC, can you provide us additional information on your plans to complete this project, i.e., cost of the project and approximately when it will be fully implemented?

Answer. A optical disc image processing system electronically indexes, captures, stores, retrieves and displays images of paper documents using high-speed input and output devices. Approximately 40,000 "images" can be stored on a 12" disc. Multiple discs are housed on a "jukebox" where they can be retrieved within seconds following a request.

The Dockets Branch of the Office of Secretary was selected for initial implementation of such a system due to the intensive indexing and manual filing required to maintain an original and duplicate record of Commission adjudicatory and rulemaking proceedings. Implementation of such a system would:

- reduce personnel costs by providing semiautomated input of data and self-service access to documents by the public
- minimize use of prime office space for file storage
- provide simultaneous multi-user access to a single document
- improve file integrity by not using originals
- eliminate costly misfiling and recompilation of lost materials

A detailed study began in May 1987 to determine the requirements of a fully automated dockets reference system utilizing optical disk technology. Study findings identified need for:

- disk capacity to store 2 million pages
- system must adequately serve 15 work stations
- high speed local area network to support the stations

The proposed optical disk system for the FCC Dockets system will include:

- digital image scanning of all new docket filings
- computerized data base linking all filings on a given proceeding
- access to docket information in less than 30 seconds from any station

Cost for procurement of all equipment and software for Phase I is approximately $600,000 ($300,000 for FY 1989 and $300,000 for FY 1990. However, the system will be fully operational the first year, capable of providing the public quick, on-line access to filings on all new dockets and a selected number of "popular" older dockets. In the second year, additional capacity and terminals will be added to serve the public as the number of on-line dockets grows. By the end of the second year, the system should be capable of meeting all public reference needs for the forseeable future.

Phase II of the system, still in the early planning stages, would provide

remote access to docket filings by FCC staff who are researching pleadings and writing orders.

REFERENCE ROOM SECURITY

Question. The budget (page 117) states that a comprehensive security review of the 1919 M Street, headquarters building, has been completed and a new security plan, consistent with GSA requirements, was implemented; in addition, measures to improve security at the 2025 M Street building were also finalized. Do these plans specifically address security improvements for FCC's reference rooms located in these and other buildings?

Answer. No, the security review of the 1919 M Street headquarters building, and measures to improve the security at 2025 M Street, did not specifically address security improvements for the FCC reference rooms. The comprehensive security review of both buildings was completed in May 1987.

In January 1988, we did conduct a separate review of security requirements for the various reference rooms. As a result of that review, we determined that the requirements for any additional security would be adequately accommodated by way of the procedural and staffing changes currently being implemented. Any funds required in that regard are included in the budget requests for the various Bureaus/Offices that have responsibility for reference room operations.

RECORDS MANAGEMENT

Question. What is the annual cost to archive paper license records at Federal Records Centers? Must these paper records be maintained? What is the annual cost to retrieve these archive paper records when requested by FCC staff or the public?

Answer. No cost to FCC except for boxing and marking the files, and preparing necessary paperwork. Federal Records Centers provide their services to the Commission without reimbursement and internal agency costs have never been itemized in the budget submissions, therefore, costs provided are approximations.

The National Archives and Records Administration provides only one cost figure and that is $1.09 per cubic foot for storage on an annual basis amortized over a 40 year period. The Federal Records Centers in Suitland, Maryland, and Philadelphia, Pennsylvania store approximately 21,000 cubic feet of Commission records at a computed cost of $22,890 annually.

It is estimated that the internal Commission work effort directed to retirement of records to a Federal Records Center consumes approximately $125,000 in salaries and benefits.

Yes, retention of agency records is in accordance with General Records Schedules published by the General Services Administration and agency records schedules approved by the National Archives and Records Administration. These records document the operations and decisions of the Commission, and for some cases, are of lasting historical reference value.

Retrieval of records for staff or public use involves shipping costs utilizing the services of the United States Postal Service and United Parcel Service. However, these costs are paid by the Federal Records Center which could provide no estimate to us. Staff salaries and benefits internal to the Commission for record retrieval are estimated to be $25,000 annually.

AUTOMATIC DATA PROCESSING

Question. FCC is requesting a total of $341,000 for additional automation capability. However, you are requesting no additional positions, instead, relying on "increased staff productivity." Is this requested increase aimed specifically in assisting the staff in increasing its productivity or are there other objectives as well?

Answer. The Commission has made significant strides in increasing productivity through automation. Examples of this are the Automated Land Mobile Application Processing System (ALMAPS) which enabled the Commission to process an increasing radio station application workload without a corresponding increase in positions. A more recent example is the Congressionally mandated Fees Collection System. Through the use of "Lock Box" fee collection and streamlined automated fee processing in the Commission, we were able to process fees with a fraction of the personnel required for a manual operation. We are continuing this approach in our FY 1989 Budget Request. The funding requested for additional automation capability has two main objectives. Some of the funds are needed to acquire additional hardware to expand application processing capabilities. The remaining funds will be used to procure labor saving tools (such as PCs) for our engineering staff.

The specific breakout of requested funds is as follows:

$77,000 is needed to purchase equipment for engineering studies and to enlarge the mass storage capacity on our scientific computer. These engineering studies will improve our license processing productivity and reduce the license processing time. Also, the hardware will enhance our technical analysis capability for radio spectrum assignments for use in evaluating proposed revisions to international policies. The additional mass storage capacity is needed to store the additional records in these systems.

An additional $79,000 is required to purchase personal computers to supplement or replace aging equipment located in the Commission's field offices and communication monitoring stations. The reliability of this old equipment is decreasing and the cost of repairing it is beginning to exceed its residual value. As an added benefit, new PCs will include labor saving software tools which were not available on the original equipment.

The Commission needs $60,000 to expand and extend our office automation program into functional areas not yet having this capability. When installed the equipment will increase staff productivity and enhance service to the public by providing the automated tools necessary to track radio station application status and produce timely responses to public inquiries.

An additional $125,000 (dollars a total of $300,000) will enable the Commission to bring "on-line" a computer controlled optical image storage and retrieval system for our dockets files. This system will automate files which are currently maintained on paper in our public reference rooms.

Implementation of such a system would:

- reduce personnel costs by providing semiautomated input of data and self-service access to documents by the public
- minimize use of prime office space for file storage
- provide simultaneous multi-user access to a single document
- improve file integrity by not using originals
- and eliminate costly misfiling and recompilation of lost materials

AUDITING OF TELEPHONE COMPANIES

Question. FCC has requested an increase of $40,000 in travel funds (p.68), as well as an increase of 3 accounting and audit positions (p.60), to conduct additional on-site audits of telephone company activities. Further, FCC Chairman Patrick's February 12, 1988, letter to Chairman Whitten, responding to GAO's October 1987 report on FCC's efforts to control cross-subsidy, highlighted additional internal staffing and travel reallocations being made to beef up FCC's audit resources. FCC's budget request notes that 13 audits were conducted in FY 1987 (p.62). How many additional audits can be expected in FY 1989 if these travel and staffing increases are approved?

FCC Chairman Patrick's February 12, 1988, letter to Chairman Whitten also noted FCC reallocations of travel funds for on-site audits, resulting in more than doubling the $35,000 spent for audit travel for FY 1987 in addition to the requested increase of $40,000. What are the total audit travel funds FCC expects for FY 1988 and 1989 (including reallocations and new funds)? What areas are being cut back to provide the funds through reallocation?

Answer. To clarify our budget request, the 3 additional positions for the Accounting and Audits Program result from a reallocation of previously authorized positions within the Common Carrier activity. You will note that the total number of positions for the Common Carrier activity is not increasing. The audit travel funds for FY 1987 were $35,000. By reallocation of previously authorized travel funds, the common carrier activity increased the FY 1988 audit travel funds by $40,000 to a total of $75,000. To enable the activity to reallocate the $40,000 Commission staff did not attend some technical meetings. Other meetings which would normally have been planned for other cities were held in Washington. The additional $40,000 for audit travel requested in the FY 1989 Budget would increase the total audit travel amount to $115,000 in FY 1989. The additional travel funds for FY 1989 will allow us to do about six more audits. Specifically, the three reallocated audit positions will be able to perform four more audits. Also, with the additional travel funds existing staff could do two more audits.

LOW COST TELEPHONE SERVICE LIFELINE

Question. FCC has emphasized its program to provide low cost telephone service to low-income families, referred to as "lifeline" telephone service. How many families obtained lifeline telephone service and how many were eligible?

Answer. Federal lifeline assistance programs are designed to preserve universal service as identified in Section 1 of the Communications Act of 1934. The FCC has further defined the universal service objective to mean "avoiding actions that would cause a significant number of local exchange subscribers to cancel telephone service." The FCC has two separate programs which provide lifeline assistance. First, lifeline measures are available that provide for a waiver of subscriber line charges, which match state assistance, up to the full amount of the charge (currently $2.60), provided the state has a lifeline program that has been certified as meeting the FCC's general requirements that eligibility for such programs be means-tested and annually verified. Second, pursuant to Joint Board recommendation, the FCC adopted the "Link Up America" program to offset the charges assessed for connecting a residential telephone to the network. Matching federal assistance is provided from the Carrier Common Line pool which is revenue recovered by local telephone companies from long distance carriers. These revenues are not federal tax dollars.

State programs generally define eligible subscribers as benefit recipients from one of five or more entitlement programs (Aid to Families with Dependent Children, Food Stamps, Home Relief, Medicaid, and Supplemental Security Income, as well as various Refugee and Energy Assistance Programs). States are required to file estimates of eligibility and participation in their first annual report. However, not all states have been able to develop this information, and some states are still in the process of doing so. Total estimates of participants and eligible subscribers are not available at this time.

The lifeline assistance program that provides for waivers of subscriber line charges was developed to assist those low income households that may have to disconnect from the network because they can not pay these charges. Although only twenty-four states have implemented this lifeline program, other states are drafting legislation or conducting Public Service Commission hearings.

The newer Link Up America program has been certified in thirty states by the Bureau Chief. This program was developed by the FCC, working with Consumer's Federation of America, AARP, and the United States Telephone Association, because of evidence that many low income households were not connected to the network because of the high cost of installation and connection charges, rather than the cost of subscriber line charges or basic local service. The FCC anticipates that most states will participate in this program.

AUTOMATED LAND MOBILE APPLICATION PROCESSING SYSTEM

Question. The budget (page 80) refers to the phased implementation of the Automated Land Mobile Application Processing System. What is the developmental cost of this system, when did development begin, and when will it be fully implemented?

Answer. In 1979, the Commission recognized that the continuing growth of application receipts was rapidly exceeding the capabilities of the manual application processing system. Continuing manual processing would have required ever increasing personnel resources, despite productivity gains, to maintain acceptable service to the public. To combat this situation, the Nationwide Land Mobile Task Force was established in October 1980 to analyze and document the existing land mobile licensing system and to conduct a detailed study of requirements for an Automated Land Mobile Application Processing System. The resulting requirements were divided into three developmental phases due to the complexity of the proposed system, with software development commencing in February 1983. Phases I and II are complete and have proven to be highly successful in producing productivity gains and enhanced service to the public. These two phases provided for the on-line keying and processing of applications with subsequent license generation, the automated tracking of pending and granted licenses, and an automated renewal/license process. The Private Radio Activity expended a total of 15 workyears to identify the requirements and complete these two phases. Development of the third and final phase is on track, with full implementation anticipated in FY 1990. It will add such enhancements as automated screening for Canadian frequency clearance and antenna clearance as well as automatic grant with call sign generation for certain applications passing specific edits. The Private Radio Activity has expended one workyear to date on Phase III development and anticipates expending 11 additional workyears to complete implementation. The cost expenditures incurred have been more than recouped through the efficiency gains realized in this successful program.

Question. ALMAPS' goals are to increase efficiency in license application process, maximize productivity and enhance service to the

public. Please provide data to demonstrate that improvements have been made in each of these areas.

Answer. Throughout the phased implementation of the Automated Land Mobile Application Processing System (ALMAPS), major steps were taken to increase efficiency in license application processing, with efforts concentrated on maximizing productivity and enhancing service to the public. ALMAPS converted a totally manual processing system into an automated on-line application tracking and processing system with subsequent automated generation of licenses and storage of information in the data base. As a result, efficiencies were realized through eliminating duplicative functions, reducing the amount of "paper flow" required during the examination process, and increasing the integrity of the data base. The system included new capabilities such as instant access to complete and timely data concerning the status of pending applications and granted licenses. These have improved the licensing service to the public and made it possible to provide instant status reports to applicants. To date, the efficiencies realized through the implementation of ALMAPS, as compared to 1985, have resulted in a dramatic 17% increase in productivity. Despite an 11% reduction in resources, land mobile speeds of service were maintained at desirable levels of under 30 days, for over 439,000 disposals. This compares to typical speeds of service in FY 1981, prior to ALMAPS implementation, of 50 days for 247,000 disposals.

RULEMAKING PRIORITY

Question. The budget (pages 80-81) refers to rulemakings that have been initiated to allow the introduction of new technologies, new services, or operational options in the Private Radio Service. Please describe the management process or planning approach used to identify these rulemakings as the most important. Were other initiatives cancelled or delayed because of budget considerations? If so, describe the initiatives.

Answer. The Multiple Address proceeding, PR Docket No. 87-5, was important because the spectrum allocated for multiple address services was seriously congested in many of the top urban areas of the country. The importance of these services to the utility companies and the security and alarm industry made it essential that certain improvements in the use of the spectrum be implemented. The Commission, therefore, proposed a more efficient channeling plan that would enable greater frequency reuse. The Commission also proposed increased sharing among the users of these systems. The Commission's proposals also made provision for new types of multiple address services, such as remote meter reading, that were being developed but were not consistent with the existing rules. Finally, this proceeding was important to the Commission in that certain actions reduced the burden on both the Commission and applicants associated with the coordination and licensing of multiple address systems. PRB-3, which sought comments on proposals for the privatization of a special call sign system for Amateur radio stations, was identified as important because of an apparent interest in special call signs in the amateur community. The action explored the feasibility of new options for accommodating the amateur community without increasing costs or workload demands on the Commission. PR 87-214 (Revision of Part 87 - Aviation Radio Service rules) and PR 87-265 (Revision of the General Mobile Radio Service (GMRS) rules) were identified as important because of the comprehensive nature of the review of those radio service rules. These deregulatory rulemakings would allow the Commission to update the rules to reflect the developments and changes in the technologies of the two radio services and eliminate unnecessary operational and procedural rules.

In addition, the Commission proposed significant changes related to its rules for Specialized Mobile Radio Systems (SMRs). Unlike traditional

private radio users who typically build and use individual radio systems for their own use, SMR operators provide communications for others on an entrepreneurial basis. Several end users may subscribe to the SMR operator instead of constructing individual facilities. In this way, the SMR operator enhances spectrum use through highly efficient channel sharing technology. The rulemaking (docket 86-404) expanded the number of entities eligible to use SMR facilities, eliminated unnecessary technical restrictions, and relaxed channel loading requirements. These actions allow SMR operators to better serve the American people. In another proceeding, we have allowed the development of a private carrier service to provide communications to users of Special Emergency Radio. We believe, and it has been proven by the SMR industry, that private entrepreneurs have the incentives to develop and use efficient forms of communications for their subscribers. Finally, the Commission opened a rulemaking proceeding to allocate spectrum for a new form of technology known as Amplitude Compandored Single Sideband. This technology uses less than half the spectrum needed by conventional FM two-way radio systems.

All of the above actions are intended to increase the options available to private radio licensees and users. We are actively seeking to remove outdated or unneeded rules that interfere with decisions that can be better made by the industry. This results in a private radio market that is highly responsive to the needs of the radio users. It also improves industrial efficiency and helps the United States compete in world trade.

Due to budget considerations, the Private Radio Activity had to streamline enforcement and rulemaking functions, essentially to respond to the most pressing problems. For example, in the compliance area, the function has largely become response-oriented to complaints. This assumes that staff resources will be directed to "trouble spots," but limits our ability to conduct broad enforcement programs. Similarly, rulemaking issues having the greatest impact on the private radio industry or on the public receive primary attention. This occasionally causes delays in processing less significant issues.

ENFORCEMENT PLAN

Question. The budget (p. 81) refers to an "enforcement plan". Please provide this plan for the record. How many staff in the private radio bureau are assigned to enforcement or compliance work now versus how many staff were assigned to this work in 1980? Please explain any changes in the size of the staff.

Answer. In 1980, the configuration of the Private Radio Bureau was much different than it is now. In 1980, the Bureau's Compliance Division, which included an Education Branch, had responsibility for enforcement of the Commission's rules relating to private radio services. Thirty-three positions were allocated to this Division, totalling thirty-four work years. Over half of these work years were devoted to the Personal Radio Services, principally the CB Service.

With the Bureau reorganization in 1982, the primary enforcement responsibility was placed in the Compliance Branch of the Land Mobile and Microwave Division. A small amount of enforcement is also carried out by the Bureau's Special Services Division. Ten positions are currently allocated to the Bureau's enforcement effort. This reduction in enforcement staff was a consequence of a general reduction in the size of the FCC's staff and reduced need for Citizen Band enforcement due to CB delicensing.

Enforcement Plan:

Implementation of the Land Mobile and Microwave Services Enforcement Plan is

the responsibility of the Land Mobile and Microwave Division's Compliance Branch:

1) Specialized Mobile Radio Services - 800 and 900 MHz Bands:

The Branch initiates investigations and compliance procedures against underutilized or unconstructed 800 and 900 MHz Specialized Mobile Radio (SMR) systems. Procedures are initiated against licensees who have failed to construct their authorized system within the one-year deadline; licensees who have failed to meet loading (utilization) standards by having an inadequate number of mobile units operating on their systems; and licensees that have inflated the number of mobile units operating on their system.

2) Private Operational-Fixed Microwave Radio Service:

The Branch initiates investigation and compliance procedures against licensees of Multiple Address Radio Systems (generally central station alarm operators) and licensees of other private operational-fixed microwave radio systems who underutilize or misuse their license authorizations. The staff also initiates procedures against licensees who have failed to construct their authorized systems within the one-year deadline and against Multiple Address Radio System licensees that have failed to construct the required minimum number of remote stations.

3) All Private Land Mobile and Microwave Services

The Branch initiates investigation and compliance procedures against any licensee in the private land mobile and microwave radio services who violates the rules contained in Parts 90 and 94 of Title 47 of the Code of Federal Regulations.

Question. The budget (p. 81) refers to enforcement efforts in the 800 MHz bands in the private microwave radio service. What enforcement efforts are planned for other bands and services?

Answer. Enforcement efforts span all frequency bands used by the private land mobile and microwave services as well as each of the twenty-one individual radio services. Enforcement efforts in the 800 MHz and the private microwave bands are highlighted because frequencies in these bands are assigned for exclusive use by a single licensee often for commercial and entrepreneurial operations. Hence, there is a strong responsibility to assure that spectrum is used efficiently and that operating rules are respected. In addition to the enforcement plan for these exclusive-use bands, the program maintains an effective enforcement plan for operations on all other frequencies. These frequencies are shared by groupings of private land mobile licensees with the requirement that licensees cooperate with each other regarding their use.

Due to resource constraints, routine compliance activities are focused on the Specialized Mobile Radio and Private Microwave Services. Enforcement efforts for the shared-use frequencies are initiated when Commission field personnel or individual complaints bring a situation to our attention indicating that a licensee is transmitting outside the parameters (both technical and operational) of its license, or we are notified that cooperative efforts among licensees to resolve a conflict have failed.

MINORITY STAFFING AT GETTYSBURG

Question. At PRB's Licensing Division in Gettysburg, how many minorities (blacks, Hispanics, and females) hold management positions, i.e.,

section, branch, and division chief or assistant chief? Is FCC satisfied with this profile?

Answer. The Licensing Division currently has 23 managerial positions encumbered, of which 13, or 57%, are filled by minorities. The Bureau has always made strong efforts to recruit and retain qualified minorities in managerial positions at the Licensing facility. Our percentages indicate these efforts have proven to be successful, and further attempts will be made to maintain or improve this record.

REMOTE CONTROL SIGNAL ANALYSIS

Question. The budget (p. 94) refers to "remotely-controlled signal analysis techniques" used to improve FCC's ability to provide interference resolution. What are these techniques and what amount of FY 1989 budget funding is required to support this activity?

Answer. Remotely-controlled signal analysis entails placing a receiver and supporting equipment in a metropolitan area where we currently do not have a field office. This equipment can be accessed remotely from a field office when a complaint is received, thereby permitting us to collect data on the state of the spectrum.

The techniques used are those which have been developed through many years of experience. A trained observer, using a data base of frequency assignments and other licensee data, as well as information given by the complainant, can be used to determine probable sources. This information is analyzed and evaluated to determine if, in fact, an FCC licensee is causing the interference. If so, they will be contacted to resolve the problem.

We are also considering making these remotely-controlled packages modular so that they may be easily configured to meet the needs of a specific locality. We would include techniques currently in the prototype stage, including a fixed automatic direction-finder (FADF) and methods for identifying signal characteristics unique to a given transmitter (fingerprinting).

We have experimented with these remotely-controlled packages as portable units, moving them to areas where a problem existed which required an extended presence. We anticipate installing these units permanently in locations across the country. We estimate that fifty remotely-controlled packages will be necessary to give adequate coverage. We had hoped to begin installing the first ten systems in FY 89. However, funding was not approved. Our FY 90 Budget request anticipates $132,000 for this project for 10 sites.

INTERFERENCE COMPLAINTS

Question. The budget refers to FOB's response to thousands of interference complaints and inquiries. Describe FOB's management process for prioritizing these complaints and inquiries and allocating limited staff to handle them so as to achieve the "most bang for the buck."

Answer. An attempt is made to balance the staffing levels with the workload in local offices. The number of public affairs specialists in each office is determined in part by the number of complaints and inquiries received by the particular office.

All complaints and inquiries receive a response. Those which can be answered by mail or telephone are responded to within a few days. Those requiring further activity are prioritized according to the urgency. There

are four priority levels which have been established by the Field Operations Bureau.

Priority I - demands immediate response at any hour. Disruptions to safety communications or communications problems affecting the President or high level officials are examples.

Priority II - work which cannot be postponed. Examples are complaints involving intermittent aviation interference, misuse of critical frequencies, such as emergency frequencies or bridge-to-bridge port operations, and extensive marketing of unauthorized equipment.

Priority III - activities which are more discretionary and adaptable to scheduling. Included are responses to national or international frequency occupancy or user complaints, complaints requiring action but not involving harmful interference.

Priority IV - inquiries about Commission policy, practice, or procedure. Complaints involving matters which policy dictates must be resolved by the private sector, i.e., frequency coordination, amateur auxiliary, etc.

FREQUENCY USE MONITORING

Question. The budget refers to FOB's "off-the-air technical measurements." During the last few years FOB has conducted several studies monitoring land mobile frequency use. (For example, a study of frequency use by the Los Angeles County Sheriff and a study of land mobile use of 800 MHz frequencies.) These studies have been harshly criticized by the public safety and land mobile community as being inadequate and poorly done. What will FOB do in the future to improve its monitoring and deal with these criticisms?

Answer. The broadcasting community and the mobile satellite community praised the FOB frequency usage studies as being very adequate, built on sound methodology, correctly reflecting frequency usage, and not in need of major improvement. FOB's studies supported the cause of the broadcasting community and the mobile satellite community.

On the other hand, the public safety and land mobile community harshly criticized the studies as being inadequate, poorly done, and in need of improvement. FOB's studies did not support the cause of the public safety and land mobile community.

FOB's studies cannot at the same time be both good and bad, adequate and inadequate, well done and poorly done. In a highly contentious and controversial area such as radio frequency spectrum allocation, frequency usage studies will be praised by one camp and belittled by another.

Any future frequency usage studies conducted by the FCC will certainly draw their share of criticism. Thus, it will be imperative that these studies use recognized methodology and procedures such as those established internationally by the CCIR, an arm of the International Telecommunications Union. Many countries follow these established procedures in collecting frequency usage data, and they use the data as a integral part of their radio licensing system.

The FCC is reviewing the need to include frequency usage information in its allocation and licensing programs. Until the review is completed, all frequency usage studies and the planning for these studies have been put on indefinite hold.

OFFICE OF ENGINEERING AND TECHNOLOGY

Question. Compare proposed FY 1989 staffing, by program, with staffing levels in 1980. How has program emphasis and staffing composition changed since 1980 and what was the policy rationale behind any changes?

Answer. A comparison of staffing levels between 1980 and 1989 is contained in the following tables.

Program	Positions
FY1980	
Research and Analysis	29
International Telecommunications Policy	27
National Spectrum Management	33
Equipment Standards and Approval	50
Technology Planning	9
	148
FY1989	
Technical Analysis	15
International Telecommunications Policy	11
National Spectrum Management	23
Equipment Standards and Approval	45
Technology Planning	3
	97

Since 1980 there has been a decrease of fifty-one positions in staffing of Engineering and Technology programs. This has taken place largely through a significant reduction in positions allocated for research and planning and through the transfer of positions to other activities directly involved in licensing radio operations. These actions reflect the determination that the Commission need no longer be heavily involved in telecommunications research and technology planning as well as our efforts to more effectively utilize available resources to provide service to the public. Over time, due to increased reliance on marketplaces as a substitute for regulation, the Engineering and Technology activity has decreased its emphasis on more general technological and scientific matters and has increased its focus on spectrum engineering and specific technical analyses. This shift has enhanced the value of the activity to other elements of the Commission because the staff's skills are now being applied to the most important and immediate problems facing the Commission. For example, the activity was primarily responsible for identifying and implementing a viable approach for meeting critical public safety communications requirements; and it is now working closely with the Mass Media activity to determine the best approach for accommodating implementation of advanced television services, such as high definition television, in the United States. By narrowing the focus, the Engineering and Technology activity has been able to reduce staffing and still provide direct service to the public through its spectrum management and equipment authorization operations as well as provide technical aid to other Commission activities in support of licensing operations.

In addition to changing the focus of the Engineering and Technology activity, we have also transferred a number of positions to other activities in order to more effectively utilize technical expertise in more direct applications. For example, since the basic technical and regulatory work in the satellite area has largely been accomplished, the positions of the former Satellite Systems Branch were transferred to the Common Carrier activity to support licensing efforts. Likewise, positions which had been designated for international conference preparation under the International Telecommunications Policy program were transferred to other activities. Since international radio conferences are usually limited in scope to

particular radio services or frequency bands, it is more efficient to give lead responsibility to the activities most familiar with the needs of affected licensees.

Finally, the Engineering and Technology activity has been greatly streamlined through restructuring and by elimination of unnecessary management overhead. By consolidating several branches, the organization is now able to more effectively support important Commission projects. Managers have the flexibility to match a wide range of individual skills to specific tasks and coordination with other activities has been greatly facilitated.

SPECTRUM MANAGEMENT

Question. How has FCC's approach to spectrum management changed since 1980?

Answer. The Commission has not changed its fundamental approach to spectrum management. The principal mechanism for obtaining the information necessary to make spectrum allocation decisions is the rule making process. Through this process, the Commission obtains feedback on any studies or analyses that form the underpinning of spectrum proposals. The information available to us today is much better than in the past. Eight years ago, much of the Commission's licensing records were maintained on paper. This made analyses of usage highly tedious, if not impossible. Today, with our licensing records maintained on computer data bases, we can perform many kinds of analyses by computer. For example, we can examine how much of a band is licensed to public safety users versus business users and identify areas where channels may or may not be available.

Question. Recently 6 MHz of additional spectrum was allocated in the 800 MHz band to public safety services. Please provide estimates of the economic value of this allocation. Also, please estimate the cost of FCC resources involved in making this decision.

Answer. This is a difficult question to answer. For example, the economic value of spectrum may be different for land mobile, broadcast, or common carrier purposes. We would conservatively estimate the economic value for commercial purposes to be on the order of several hundred million dollars. However, in dealing with allocations for public safety, economics is not a principal consideration. The Commission places a high premium on use of the spectrum for safety of life and protection of property, in keeping with the directives of the Communications Act.

The 6 MHz was allocated to the public safety service through rule making in General Docket 84-1233 and is being implemented through service rules developed in General Docket 87-112. It is difficult to estimate costs for any particular rule making action because many individuals are involved in the decision-making process at several levels. Our best estimate of the cost to the Commission in personnel resources in making the 6 MHz allocation decision is $235,000. This is based on: $6,000 (.4 workyears at a GS-5 level) for administrative and secretarial support, $180,000 (4 workyears at a GS-13/14 level) for review of incoming materials, development of rationale and initial drafting, $28,000 (.5 workyears at a GS-15 level) for project guidance, review and editing, and $21,000 (.3 workyears at the SES-3 level) for developing Commission policy.

Question. Television broadcasters have been criticized for inefficient spectrum use because they still use the same amount of spectrum per television channel (6 MHz) used 40 years ago. Currently, it is expected that broadcasters will request FCC to allocate more spectrum for high-definition television (HDTV). What has FCC done to encourage broadcasters to make more efficient use of their spectrum?

Answer. Since the inception of TV broadcasting, the amount of spectrum per television channel has remained constant at 6 MHz; however, the TV signal format has evolved to permit transmission of increased video and audio information in that same space of spectrum. For example, color television was implemented by adding color information within the 6 MHz channels. More recently, TV stereo and second audio programs were implemented by transmitting additional audio signals within the 6 MHz channels. The Commission has also provided for techniques to piggy-back video text or closed-captioning for the hearing impaired on the standard TV signal. Therefore, we believe it is fair to say that th spectrum efficiency of TV broadcasting has improved over the years by transmitting more video and audio information without any increase in the required spectrum per television channel.

It must be remembered that more than 200 million TV receivers are in use, representing a consumer investment of more than 80 billion dollars. All of these receivers are designed to tune 6 MHz channels. It simply is not possible to reduce the amount of spectrum per channel, without making these receivers obsolete.

The Commission in July 1987 initiated a proceeding to collect information looking towards the implementation of advanced television systems. A broad variety of advanced television systems are under development. Some require additional spectrum, while others do not. In general, the degree of potential improvement in TV picture and audio quality is proportional to the amount of spectrum available for each channel. The issues associated with implementation of advanced television systems are highly complex, involving a variety of technical, economic and social trade-offs. Spectrum efficiency will certainly be a key consideration in our deliberations, and we will weigh carefully the opportunity costs of allocating additional spectrum per channel.

LEASE OF MINI-VAN

Question. The budget includes a request for (p.111) for $5,000 to lease a mini-van for the Equipment Standards and Approval Program. Why is it more beneficial to FCC to lease a mini-van instead of purchasing one? Also, if this mini-van will be a long-term FCC need, please provide a cost comparison between leasing versus purchasing the van over a 5-year period.

Answer. The FCC Laboratory requires replacement of aging vehicles (two 1974 vans and one 1978 passenger car). In light of budget limitations imposed on agencies throughout the government, alternatives to large expenditures of funds were investigated in preparing the FY1989 budget. Other offices within the FCC currently have leasing agreements with GSA, which recommends leasing as a viable alternative to purchase of vehicles. An estimated 60% of privately owned businesses also now lease vehicles, finding this alternative more cost beneficial and easier to plan and budget.

The principle applied in determining the lease charge is that the customer pays for the vehicle depreciation anticipated over the term of the lease. A service charge is included in the lease price and, at the request of the customer, a maintenance fee can also be included. For the customer, a relatively large expenditure of money for cash purchase is replaced by monthly fees which can be budgeted over time. Good business practice generally indicates that those items which appreciate should be purchased, whereas those items which depreciate should be leased. This is particularly true when the costs are comparable.

The purchase cost of a mini-van was estimated at $17,000. The request for $5,000 annually for lease of a vehicle is an estimate based on a two year lease, and includes funds for a maintenance agreement over this period. The GSA recommended replacement period for vehicles is five years. A five year

lease would require an annual expenditure of less than $3,000 on a $17,000 vehicle. The five year cost for leasing, $15,000, would be less than the purchase price of a new vehicle.

FEES

Question. FCC's fee collection system started on April 1, 1987, and the budget request notes that $10.3 million was collected (p. 116) during FY 1987. Please provide the amounts to be collected in FY 1988 and FY 1989. How does the FY 1989 amount compare with FCC's expectations? How much did it cost FCC to set up and operate the fee collection system? Also, when will the fees be increased to reflect recent cost-of-living increases and how much additional revenue will be generated?

Answer. We believe, based on receipts thus far this fiscal year, that we will collect between $20 million and $21 million in FY 1988 and between $22 million and $25 million in FY 1989. These estimates are conservative and somewhat lower than the estimates made by the Office of Management and Budget in the President's FY 1989 Budget. The critical unknown factor is the number of cellular radio applications for rural markets which will be received. Prior to implementation of our user fee program, we had estimated that we would collect as much as $36 million in fees in FY 1989.

It took a total of $879,000 to implement the fee collection program in FY 1987. We estimate that yearly costs to operate the program will be approximately $750,000.

Current law requires that our fees be reviewed and revised, as necessary, every two years after enactment of the fee schedule to reflect changes in the Consumer Price Index - Urban Consumers. A legislative request is pending as part of our FY 1989 authorizing legislation to change the initial review/revision period to two years after implementation rather than enactment. It has taken some time to achieve satisfactory compliance with the program and we believe that to change the fees after only one year of operation would cause increased problems with compliance, delays in processing applications, and possibly lost revenue.

Although we do not have any estimates of the amount of additional revenue an increase in fees would generate, we have done some analysis. The analysis shows that if we change the rate today, at the current CPI-U percentage increase, and if the receipt rate remains constant, 70% of our fees would change, and an additional $800,000 - $900,000 would be collected. Our estimate of $22 - $25 million takes this into account.

FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554

JUN 3 1988

OFFICE OF
MANAGING DIRECTOR

Mr. Warren Kane
United States Senate
Room S-146
Washington, D.C. 20510-6025

Dear Mr. Kane:

Forwarded herewith are answers to the questions raised by the Senate Appropriations Committee concerning the FY 1989 Budget Request for the Federal Communications Commission.

If the Commission can be of further assistance, please do not hesitate to let me know.

Sincerely,

Edward J. Minkel

Edward J. Minkel
Managing Director

Questions Submitted by Senator Warren Rudman

Question. Section 621 of the Treasury, Postal Service and General Government Appropriations Act, 1988 provides that "each Executive agency detailing any personnel shall submit a report on an annual basis in each fiscal year to the Senate and House Committees on Appropriations on all employees or members of the armed services detailed to Executive agencies, listing the grade, position, and offices of each person detailed and the agency to which each such person is detailed." The statement of the managers accompanying this act further states, "The Conferees expect these reports on detailees to be submitted to the Committees concurrently with the President's annual budget submission to the Congress." Further information on this requirement can be found on pages 446-447 and pages 1177 of the conference report on H.J. Res. 395.

Please provide this report for the record.

Answer. The Commission has had one employee detailed to another Executive agency in the fiscal year beginning October 1, 1987. This was an electronics engineer grade GS-13 in our Office of Engineering and Technology, Spectrum Engineering Division, Treaty Branch, who was detailed to the Agency for International Development, Office of U.S. Foreign Disaster Assistance on a reimbursable basis for a period of one year beginning on March 29, 1987. Our first report under this act will be included in the Commission's next budget submission.

Question. Please provide a comparison of funds originally requested to implement the Federal Employees' Retirement System (FERS) in FY 1988 with the current projections, as well as with the FERS request for FY 1989.

Answer.

	Original Estimate of Incremental Funding Required for FERS*	Current Estimates of Incremental Funding Required for FERS*
FY 1988	$5,856,000	$2,181,000
FY 1989	$6,580,000	$2,508,000

* Represents the estimated additional funds required above the base funding for employee retirement costs in FY 1987. This base available funding was $4,752,000.

Question. Please provide a priority listing of the program increases requested for fiscal year 1989, as well as a justification for the rankings.

Answer. The following is a prioritized list of the program increases we are requesting for fiscal year 1989.

Program Increase	Amount Requested
1. Additional travel funds for auditing to control cross-subsidization of costs between telephone carriers' regulated and non-regulated operations	$ 40,000

2.	ADP hardware needed for migration of the FM and TV engineering databases and the Demographics and Broadcast EEO databases from the mainframe to VAX minicomputers	$ 47,000
3.	Computer terminals required for migration of the Ingres AM engineering databases from the mainframe to VAX minicomputers	$ 8,000
4.	Expansion of computer controlled optical storage and retrieval system	$125,000
5.	Nineteen personal computers to provide back-up to Momentum system at one-half of the Field Operations Bureau's 36 field offices	$ 79,000
6.	Upgrade one-fourth of Type W direction finders at Field Operations Bureau field offices	$ 93,000
7.	Telephone lines and terminal for Autodin service and funding for Commission's share of NCS National Level Program in line with Executive Order 12472 and National Security Directive 201	$ 77,000
8.	Renovate Powder Springs, Georgia monitoring facility	$100,000
9.	Additional high speed digital communications line between Gettysburg and Honeywell mainframe in Washington needed to implement Aviation (Aircraft) and Marine (Ship) Application Processing Systems	$ 26,000
10.	Additional base budget funding for purchase of technical equipment for the Office of Engineering and Technology -- brings base up to $50,000	$ 36,000
11.	12-bin collator for the Commission's print plant	$ 35,000
12.	Additional office automation for Common Carrier Bureau's International Facilities Division to process International Space and Earth Station licenses	$ 20,000
13.	Additional office automation capacity for the Common Carrier land mobile services, specifically required to handle increased number of petitions to deny resulting from lotteries for cellular telephone systems in rural areas	$ 27,000

14. Personal computer and associated software for International Branch of Mass Media Bureau for International Radio Consultation Committee (CCIR) work	$ 11,000
15. Additional office automation capacity for Common Carrier Bureau's Enforcement Division	$ 5,000
16. Personal computer for the Private Radio Bureau to perform complex analyses in support of 900 MHz lotteries, UHF Shared and 220-222 MHz narrow band usage	$ 8,000
17. Hardware required to perform engineering analysis for the Instructional Television Fixed Service (ITFS) on VAX minicomputers	$ 11,000
18. Additional base budget funding for the repair of technical equipment	$ 12,000
19. Additional Incentive Awards funding	$ 73,000
20. Additional funds to ship equipment between field offices	$ 15,000
21. Additional service contracts for Momentum Computer network	$ 7,000
22. Lease of a passenger vehicle for Laurel Laboratory	$ 5,000
23. Replacement tractor for Field Operations Bureau	$ 16,000
TOTAL	$876,000

These program increases and their relative priorities demonstrate our concerns for meeting our most urgent program objectives, as well as improving the efficiency with which we accomplish those objectives. For example, we are placing a high priority on our ability to perform the necessary audits needed to ensure the absence of cross-subsidization in the now less regulated telephone industry. Also, we are placing a high priority on meeting our most urgent needs to strengthen our capability to enforce the Commission's rules. However, with the current and likely future constraints on the overall level of resources we will have, we are keenly aware that we must make our staff as productive as possible. This means, for us, the increased use of automation. We have already accomplished much in the way of automating most of our license application processing systems, and in overall office automation. Our increased productivity has been quite dramatic and we hope to do even more through the use of automation. We also need to replace or repair critical Commission facilities and equipment such as the "Type W" direction finders at our monitoring stations and the collater for our print plant. Finally, we have mandated increases for Performance Management and Recognition System (PMRS), but we must also reward our general employees on some equitable basis. We have asked for some funds to increase our non-PMRS incentive awards.

Question. The Federal Communications Commission is requesting $876,000 for program increases but no new net positions. However, both positions and workyears are being shifted between activities and programs. Why are the increases and decreases in various areas being shown as adjustments to base rather than program changes?

Answer. The main controlling mechanism for the level of staffing for each of the Commission's programs is the number of full-time permanent positions (FTPs) authorized. We have done very little by way of shifting FTPs between our programs. However, there are differences among our program areas as far as the number of full-time permanent positions that are vacant. Some programs have virtually all of their positions filled while others have many vacancies. The shifting of workyears and FTEs between programs does not represent a change in resources or program priorities. It is the result of our procedures for estimating where the workyears will be used. Our estimates for FY 1988 and FY 1989 assume that those program areas which are understaffed vis-a-vis their authorized position ceiling will be hiring to fill their vacancies and thus will require more workyears and FTEs than those programs which are near their authorized personnel ceiling.

Question. If Congress does not restore the $2,063,000 being requested to restore funds to non-personnel accounts what impact will this have on the operations of the Commission?

Answer. The appropriation received by the Commission for FY 1988 was nearly $6 million less than required, after taking into account adjustments for lower Federal Employees' Retirement System costs and the FY 1988 Federal pay raise. We covered part of this shortfall in funding by reducing our non-personnel accounts by $3.7 million.

In our FY 1989 Budget Request we are asking that 55% of this funding be restored to our budget base ($2,063,000). We made the reductions required in FY 1988 from those accounts where spending is largely discretionary -- mainly the purchase of automated data processing and technical equipment. As a result, the acquisition of critically needed replacement equipment and new equipment needed to improve overall staff productivity was deferred. We also reduced funding for the rental of equipment and for contractual services. New initiatives were delayed, such as a more efficient and cost effective means of storing and retrieving our docket files through the use of optical image processing technology. A delay of one year in these accounts will not have a drastic negative impact, but a continued deferral will seriously affect our ability to carry out our statutory mission. Recognizing the necessity to control the federal deficit, we carefully reviewed all expense areas and decided to restore only slightly more than half of the reductions.

Question. No funds are anticipated to be obligated in FY 1988 for object class 12.08, station change allowance. However, $281,000 is requested for this purpose in FY 1989. What is the justification for this request?

Answer. In FY 1988, in order to meet the constraints placed on our budget, we decided to defer transferring any employees. With unexpected vacancies, especially in our field facilities, this may be very difficult to achieve. In FY 1989 we are requesting that the base funding be restored to our budget, so that we will be able to utilize our trained staff more effectively. Additionally, much of our recruitment effort focuses on hiring engineers. Entry-level engineers are authorized relocation expenses because they constitute a shortage category.

Question. In object class 31, $118,000 is requested as an adjustment to base for technical equipment and $731,000 is requested as an adjustment to

base for ADP equipment. What is the justification for this request?

Answer. We are requesting these funds in order to partially restore funding to the base budget for these accounts. In order to meet the lower than requested appropriation level in FY 1988 we reduced the budget for our most discretionary expense areas. We have deferred the purchase of some technical and ADP equipment in FY 1988. However, we will need to purchase this equipment in FY 1989, if we are to continue meeting our mandated mission.

Question. The Commission is requesting a reduction of 16 FTEs and 16 workyears from the Mass Media Bureau, including 4 FTEs/workyears from the Enforcement Division. What impact will this have on bureau operations, and what enforcement activities will be affected by the reduction in that division?

Answer. This reduction in FTEs/workyears in FY 1989 is the result of our estimating technique for the allocation of total Commission FTEs/workyears. Our technique makes the assumption that those areas within the Commission which are at or near their full-time permanent (FTP) position ceiling will save workyears and FTEs through the lapse created by turnover of staff. We do not believe that this will have a negative program impact.

Question. An additional four workyears are being requested for the Commissioners. What is the justification for this increase? What impact will there be if this increase is not granted?

Answer. Our estimate for the number of workyears that will accrue to the Commissioners Activity was based on an assumption that the two currently vacant seats on the Commission would be filled in mid-FY 1988. The additional workyears in 1989 will accrue from having the two Commissioners and their staffs on board for an entire fiscal year.

INTERNATIONAL TRADE COMMISSION

Questions Submitted by Senator Ernest F. Hollings

RESPONSES OF SUSAN LIEBELER, CHAIRMAN**
U.S. INTERNATIONAL TRADE COMMISSION
TO QUESTIONS FROM APPROPRIATIONS SUBCOMMITTEE

Question:

1. In order to improve the accuracy of ITC's industry-supplied data, GAO recommended last year that ITC spot check the validity of data provided by U.S. firms in their responses to ITC questionnaires and that it also make increased use of statistically valid sampling techniques in collecting data from industry. How has ITC implemented these approaches?

Response:

In the Section 332 studies, the Commission has met several times with the Office of Management and Budget over the past year to discuss questionnaire design and approval and some improvements have been made. In addition, the Commission has obtained the services of two questionnaire experts to: 1) evaluate questionnaire design and use, 2) evaluate data resources, 3) increase efficiency of obtaining OMB clearances, 4) recommend training needs, 5) produce a questionnaire handbook, and 6) test and implement the new questionnaire design and procedures. The two questionnaire design experts (from another Federal agency) are on detail to help ensure, among other things, that individual questions are designed to reduce biases in respondents answers. The use of these techniques increases the reliability of the data while decreasing the paperwork burden to the industry under investigation. We expect some immediate improvements and an improved system of producing and processing of 332 questionnaires by the end of 1988.

In Title VII investigations, the Commission staff has discussed the verification of data with other federal agencies with similar experiences, notably the Department of Commerce. The Commission issued a Request for Proposals in March to obtain the services of an outside contractor to review the verification process and to provide assistance and advice to improve the process. Specifically, this contractor will be required to: 1) review current procedures for collecting and verifying data, 2) review

**Pursuant to 19 U.S.C. 1331(a) (3), the views stated herin are those of Chairman Liebeler and not necessarily those of the U.S. International Trade Commision.

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GAO comments on the need for verification, 3) develop a handbook to conduct questionnaire verifications, including guidance on selection of firms to be examined, checklists and sample verification reports, and 4) train the staff in verification, including active participation in verifications on specified investigations. This contract should be awarded shortly.

In addition to actions taken to improve the design of questionnaires which should facilitate responses by the private sector, the Commission has begun, on a selective basis, the use of stratified and other sampling techniques. The Commission has used stratified and other sampling techniques in 332 investigations whenever practical for a number of years. In Title VII cases the Commission sometimes uses sampling techniques for agricultural cases. The Commission has not yet addressed the sampling and the adequacy of response rates in other Title VII cases. These techniques allow the Commission to obtain and process data in less time, while reducing the reporting burden to industries under investigation. These techniques also reduce bias and provide more reliable data. I believe these actions, both individually and in combination, will lead to significant improvements in the questionnaire process resulting in faster response rates.

Question:

2. Could you provide an update on (1) ITC's computer procurement during this past year and (2) your specific plans for such procurement in FY 1989?

Response:

The Commission has continued to implement the Office Automation Replacement System (OARS) plan we started in FY 1987. We have installed a PC local area network (LAN) that connects every office in the Commission. The system provides word-processing, E-mail, shared databases and files, direct access to remote computer services, etc.

The OARS plan is ahead of schedule and well within the planned cost figures we provided last year. We now expect to have about 430 personal workstations connected to the Commission's LAN by the end of FY 1988 and approximately 480 by the end of FY 1989. In addition, we will have approximately 20 PCs distributed around the building in the training room and in common use areas. These will be used for a variety of special purposes, such as training and graphics. Several offices have asked for accelerated delivery of workstations and others have found the system so useful they have asked to have more workstations than were in the original plan. We anticipated this might happen if the plan was a success, and we do not expect to need any more funding for these needs.

The ITC also owns a small aging mainframe computer. It is used mainly for some of our trade monitoring and for record keeping for the Offices of Administration and the Secretary. The ITC does not have any immediate plans to replace or scrap this computer, but it has commissioned a consultant to review the ITC's data processing needs and to recommend a data processing architecture for the future. Among the questions addressed by the consultant's report will be whether the ITC should replace or scrap its in-house computer.

Question:

3. Chairman Liebeler stated last year that she supports user fees for some of ITC's recurring reports and would attempt to have the Commission institute such a program. What is the status of this effort now?

Response:

The Commission has not yet made any decision on user fees. The Commission incurs considerable additional printing, mailing and distribution expenses by printing and distributing its opinions and reports without charge to requesters outside the government.

The main mailing list of the USITC contains 1,727 names. This list is maintained on a computer and each name is coded so that mailings are made of only the materials requested by the addressee. Some addressees receive only one category of mailing, e.g. the agenda of Commission meetings. A few receive all types of mailings. The categories of materials mailed and the number of names in the mailing list receiving that category are as follows:

- Agenda of Commission meetings - 166
- Monthly calendar - 297
- News releases and notices - 630
- Annual report - 189
- Summaries of Trade and Tariff Information - 244
- Notice of publication of new TSUS - 78
- Publications (all) - 535
  - Dumping - 115
  - Countervailing - 97
  - Escape clause - 94
  - Unfair imports - 117
  - General studies - 120
  - Market disruption - 81
  - Trade negotiations, GSP - 79
  - Interference with agricultural programs - 50
  - Miscellaneous - 37
  - By subject matter:
    - Agricultural products - 35
    - Lumber, forest products - 30
    - Fibers, textiles, clothing - 42
    - Chemicals - 47
    - Non-metallic minerals, manufactures - 23
    - Metals, manufactures - 52
    - Miscellaneous products - 39
  - East-West trade reports - 849
  - Operation of the trade agreement program report - 1,204

Names are added to the mailing list on the basis of requests made by mail, telephone, or in person. Annually a purge is run to delete the names of people who no longer wish to remain on the mailing list. Each purge results in the deletion of approximately 20 percent of the names. (Some are added back later when the people so request.)

The Commission mailing list is not the only way in which Commission publications are distributed, however. The Office of Industries maintains the mailing list and distributes certain reports, including the automobile, steel, synthetic organic chemical, trade shifts and Monthly Import Business Review reports.

The Commission's present distribution policies do not provide good

information on the real demand for the Commission's products. User fees would provide information about demand for the goods and services being supplied, information that cannot be inferred when the product is provided free of charge. Print runs should be continued for publications whose demand holds up when fees are charged, but publications whose demand drops precipitously or disappears when faced with a user fee should be reevaluated. Such a policy would allow agency resources to be devoted to more productive uses. Commercial production and distribution by GPO or the private sector would also provide important information on the demand for Commission publications.

In an effort to address these problems, I have asked the Commission Secretary to contact several legal publishers to inquire about their interest in undertaking commercial publication and distribution of ITC decisions. Commercial publication of these reports could result in speedier and more efficient distribution of ITC opinions and relieve the Commission of the costs of printing and distributing them. The Commission would, of course, continue to print a limited number of copies for internal use, the parties, and other government entities.

This year, the Commission will examine its distribution policies for its studies and recurring reports to see if user fees are appropriate or whether it makes sense for GPO to print and sell some of the reports.

Question:

4. ITC does not presently have an internal audit staff. How does it assure that internal controls are properly and consistently followed? In particular, how does ITC assure that management weaknesses in the vulnerability assessments required by the Federal Manager's Financial Integrity Act are diligently addressed?

Response:

Beginning in the fall of 1986, the following audits and management reviews have been performed on Commission activities-

1. A review of procurement practices, performed by a government procurement expert;

2. An audit of the Commission's accounting system and operations, including reconciliation of the fixed assets performed by Arthur Andersen and Co.;

3. A Commission-wide review of programs and support activities, performed by the General Accounting Office;

4. A review of information security procedures, performed by Arthur Andersen and Co.

The Commission instituted its first audit program in January 1987, by contracting with Arthur Andersen and Co. to provide both financial and program audits. Since the Commission is a small, relatively low-risk (in audit terms) organization, we determined that it was cost effective to use an outside contractor instead of establishing a full time in-house audit staff.

Internal controls are reviewed by managers pursuant to an ITC directive implementing the Federal Managers' Financial Integrity Act. The Director of Finance and Budget maintains an automated file of all findings resulting from internal control reviews, audits and special reviews. Managers are required to report an updated resolution status on a quarterly basis.

Key issues raised in the audits are listed below, with their current status. None of the findings involved waste, fraud or abuse. I believe the Commission's administrative and program practices have improved as a result of audits.

Items	Status
o Lack of comprehensive information security policy and procedures	Arthur Andersen completed review of procedures in September 1987, indicating current overall procedures are adequate. Arthur Andersen suggested 14 policy issues to be resolved. A draft directive is now under review by senior management and Commissioners, and will be issued in final by June 30, 1988.
o Fixed assets general ledger account cannot be reconciled with physical property records. Requires implementing formal property management system.	Inventory was completed and a fixed assets reconciliation took place and was audited by Arthur Andersen in February-March 1987. Also, a directive establishing a formal property management system was issued on April 15, 1988.
o ITC questionnaires may contain format weaknesses	Questionnaire has been redesigned for Title VII investigations in consultation with GAO, and is in use. Two Federal Trade Commission experts are on detail to the Commission to help improve questionnaires for section 332 studies; a revised process will be implemented by September, 1988.
o Investigative fieldwork was limited	Investigative and verification travel for each case has increased since the last half of FY 1987. The Commission is reviewing contractors for expert advice to develop a verification program, to begin in the summer of 1988.
o Investigative reports lack summaries and scope/ methodology	Summaries and scope/ methodology statements are being used, as appropriate and upon request.

o Lack procedures for periodically reviewing the continued need for recurring reports	The Commission is conducting a review with the Senate Finance Committee and the House Ways and Means Committee regarding the need to continue certain reports requested by these Committees. Since the GAO study, some reports have been reduced in frequency, and three have been terminated. The Chairman of the Ways and Means Trade Subcommittee has requested that the ITC continue the Synthetic Organic Chemicals quarterly and annual reports, under section 332 (g) of the Tariff Act of 1930; the ITC will continue them, as requested.
o National security and confidential business information- - Accountability - Inventory - Security checks - Oversight	Schedule to resolve all issues was developed, with regular process reports to the Chairman. Updated directives will be issued June 30, 1988 on ADP security and include CBI. We are now updating our National Security directive.
o Information Resources Mgmt: - Org. fragmented - Lack comprehensive IRM plan - Microcomputer acquisition - lacks complete analysis	Arthur Andersen (AA) is performing a comprehensive study of IRM. AA issued a draft final report, which has been reviewed by senior Commission staff and the Commission; the final report is due in July, 1988. The microcomputer acquisition matter was resolved when the Commission's Information Systems Planning Committee developed an Office Automation Replacement System (OARS) and obtained GAO concurrence in its completeness. A five year IRM plan is being developed by the Commission's staff.
o Requests for payment prepared and approved with no second review	Director of Finance and Budget approves all payments of $5,000 or more, and reviews all others on quarterly basis.
o Certain account balances are not regularly substantiated. Also, fixed asset records require improvement.	All account balances and supporting documentation are substantiated on a quarterly basis. A formal property management system has been implemented. An outside auditor will be asked to review property management in the fall of 1988.
o 13 items were reported as needing improvement to bring procurement actions and records up to standard. The last two items have been completed as of Feb 1988:	A schedule of action and deadlines was agreed to by the Director of Administration and the Chairman, requiring timely action and monthly status reports. All the items have been resolved as of February

- Administrative leadtime tested and report issued	1988, with an updated directive issued February 29, 1988.
- Update Directive 3601	

Question:

5. Under ITC's trade monitoring program, ITC analyzes significant trade shifts in commodities. What trade shifts have you identified recently and what benefits have resulted from your identifying these?

Response:

In its May 1988 report, Trade Shifts in Selected Commodity Areas, the ITC reported on the major trade shifts occurring during 1987. Among the major trade shifts identified and discussed in the report were the following:

U.S. exports of office machines increased by 21 percent to $18.6 billion as the U.S. maintained dominance in computers and automatic data processing machines.

Exports of aircraft and spacecraft increased by 12 percent to $16.8 billion as the U.S. increased exports of large transport airplanes.

Exports of coal experienced a decline of 15 percent to $3.8 billion due to the over supply of relatively inexpensive crude petroleum.

U.S. exports of apparel increased by $265 million; however, approximately one-half of this increase is believed to be apparel parts shipped to Mexico and Caribbean Basin countries for assembly and subsequent return to the United States as finished apparel. Textile exports rose 32 percent to $6.9 billion largely as a result of increased shipments of raw cotton.

U.S. agricultural exports increased by 10 percent to $31 billion in 1987, with major gains in grains and tobacco. The increased exports of tobacco came as Japan liberalized import requirements relating to tobacco and tobacco products.

On the import side, U.S. imports of textiles and apparel continued to reach new highs, climbing by 16 percent or $4.8 billion to $34.8 billion in 1987. The largest increase occurred in apparel, imports of which rose by 19 percent, or nearly $3.2 billion, to approximately $20.3 billion.

Imports of crude petroleum increased in value from $22.6 billion in 1986 to $29.1 in 1987 as the per barrel price of crude petroleum rose.

U.S. imports of passenger autos increased 5 percent in 1987 to $51.6 billion, reflecting strong demand for foreign automobiles.

U.S. imports of office machine increased by 26 percent to $18.4 billion as foreign producers, especially Japanese, gained market share in the U.S. computer market. Imports of semiconductors rose 28 percent to $7.8 billion, reflecting a strong demand for these

products by U.S. producers of computers and other electronic products.

Commission trade monitoring efforts provide Administration and Congressional staff with direct access to the latest trade information and analysis to assist in policy decisions. The Commission provides the quarterly trade shifts report to the President and the Congress and provides periodical reports that have been requested on autos, steel, chemicals and footwear. The ITC also conducts a number of industry specific fact finding investigations each year on request.

In addition, by regularly monitoring U.S. trade shifts, the Commissioners and the Commission staff are better prepared to address their mandated trade investigations. As a result of the Commission's trade-monitoring publications, U.S. industry and the public in general are better informed of trade shifts that affect them.

Question:

6. You are requesting $1,243,000 for materials and supplies for FY 1989 (p. 38). This is an increase of $328,000 or 36%, over the $915,000 level for FY 1988. What does this category of expenses include, and why is such a sharp increase being requested (it equals $2,476 for each of ITC's projected 502 employees, and the increase requested is $653 for each of the 502 employees)?

Response:

These costs include office supplies, duplicating supplies, periodicals required by the Commission libraries, and information systems\office automation supplies, including computer software. The major increase in this object class ($280,000 or 85% of the increase) is for ADP software and supplies in both the professional and administrative areas.

Question:

7. You also are requesting $1,340,000 for FY 1989 for "communications, utilities and other rent" vis $1,215,000 for FY 1988 and $1,017,000 for FY 1987. This is a 32 % increase from the FY 1987 level.

(a) What is "other rent" for, especially since p. 4 states that the Commission moved into its new headquarters in January 1988 and that this is the first time ITC has been at a single location since 1975? How much money is in this category and how does it relate to the $6,014,000 requested for "rent"?

(b) How much of the increase is attributable to communications and, in particular, utilities? Are any utilities included in the $6 million rent?

Response:

(a) This expense category, budgeted at $1,340,000, includes postage, telephones, utilities, and equipment rentals, which is the "other rent". The $150,000 included for "other rent" is the same level that was expended in FY 1987 and does not

include "space rental." The $6,014,000 is budgeted for payment to GSA for the Commission's physical space requirements, and includes minimum building maintenance, utilities, cleaning services, and guard services. It does not include additional utility costs associated with the Commission's computer and other information system requirements which are included in the budget category of postage, telephones, and utilities.

(b) Of the $323,000 (or 32%) increase since 1987, 34% is related to increased utility costs which have increased 117% for the Commission since FY 1987, and 66% to meet increases in telephone and postage costs. As stated above, only minimum utility services are covered by GSA space rental charges. Extra utility charges above those included in the space rental amount due to Commission staff working extended hours are included in this budget category.

Question:

8. On page 38, $316,000 is requested for Printing and Reproduction for FY 1989. While this amount is an increase of only $6,000 from the FY 1988 level, it represents a 43 percent increase over the FY 1987 level. Why has that expense category increased so substantially? Are equipment costs included in this line item? Has ITC investigated ways to cut these costs?

Response:

The FY 1989 request, which is 2% above the FY 1988 budget level includes: increased printing requirements related to the TSUSA and implementation of the new Harmonized System nomenclature; increased Federal Register inserts; and increased requirements for forms, publications, and microform processing utilized in the day-to-day operation of the Commission. There are no equipment costs included in this line item. The Commission has reduced these costs in the past by changing printing policy, and will continue to seek ways in which to reduce costs.

Question:

9. Footnote 3 on p. 7 indicates that the $4 million appropriated in FY 1987 for ITC's relocation are no-year funds. We note that $2,092,000 was expended in FY 1987, leaving approximately $1,908,000 available for expenditure. Yet on p. 6 you requested an additional $168,000 for space rental for FY 1989 and also $125,000 for communications and utilities. (a) Are any of these requested items chargeable to the $4,000,000 appropriated for the relocation, and (b) Will any of the remaining $1,908,000 be returned to the Treasury since ITC apparently completed its move to the new headquarters in January 1988?

Response:

The Commission's FY 1987 budget was amended to include $4,000,000, to remain available until expended, for one-time expenses related to the relocation. The funds were for three major categories: (1) moving and design expenses; (2) modifications of the leased space for hearing rooms, libraries, computer and printing facilities to meet ITC special needs; and (3) equipment. Through September 30, 1987, $2,092,000 of the $4,000,000 appropriated had been

obligated, with most of the balance committed to GSA for space modifications.

As of April 30, 1988 $3,684,000 has been obligated, and the balance of $316,000 remains available for final settlement of ITC commitments. We expect to have full accounting of relocation by September 30, 1988, after which the remaining balance (if any) will be returned to the Treasury.

The amounts provided in FY 1989 for space rental and communications and utility costs are operating (recurring) expenses not related to relocation, and, therefore, are not chargeable to the $4,000,000 appropriated for the (one-time) relocation. These items reflect increased costs for building rent, postage, telephones, etc., in FY 1989, to be paid from annual operating appropriations.

Question:

10. On page 2 of the budget request, you state that in FY 1987, your investigative workload dropped 36% from the prior year. Yet you project (see pp.7 & 10) increases in this category for both FY 1988 and again for FY 1989. We are now almost halfway through FY 1988. What is your current workload projection for the rest of this year? Does the current workload indicate that increases for FY 1988 and FY 1989 are justified, particularly with the current improvements in the U.S. export picture and the drop in the value of the dollar?

Response:

It is not possible to predict with accuracy the effect of the cheaper dollar on the ITC's workload. As the dollar falls in value relative to certain foreign currencies, the price of some foreign goods will rise and should relieve pressures of import competition for many U.S. firms. The Commission may, therefore, hear fewer injury complaints from some import-competing producers in the United States. While our investigative caseload has declined in recent years, this decline may be attributable to proposed changes in the trade laws; some would-be petitioners may be waiting to file petitions under the new law. Even if the dollar remains low, a downturn in the U.S. economy could increase the caseload of import injury petitions. It is very difficult to anticipate the demands that will be placed on the Commission 12 to 18 months in the future, but I have attached a table showing projected investigative caseload recently developed by the staff.

Much of the Commission's workload, however, is not related to import relief petitions. It is likely that trade and trade legislation will be very important over the next few years, and the Commission's expertise will continue to attract requests for data, advice, and assistance on trade issues. At the same time, we know that the Uruguay round of trade negotiations may affect our resources. In addition, various trade bills under consideration by Congress may assign new responsibilities to the Commission. I believe that the Commission's budget request will provide sufficient resources to meet these demands.

With the United States in a new round of Multilateral Trade Negotiations (MTN) it is expected that the Commission will see an increase in the level of investigative work under section 332 of

the Tariff Act of 1930 and an increase in requests for assistance from the Congress, other agencies, and the public.

Work on the Harmonized System (HS) will change in emphasis from constructing the harmonized system nomenclature language and conversion of TSUS import trade data to the HS nomenclature to maintenance of the HS, working with the Customs Cooperation Council on international HS technical problems and developing 10-digit HS statistical breakouts once the HS is implemented. The work of the 484-E Committee is expected to increase substantially responding to the expected increase in requests for additional breakouts over the next two years.

The traditional role of the Commission in international trade negotiations has been to provide technical expertise on tariffs, because we have regular responsibility for maintaining the U.S. tariff schedules. In granting tariff- setting and other authority to the President for the purpose of conducting trade negotiations, the Congress traditionally has required the President to obtain the advice of the ITC on the probable economic effects of tariff reductions on U.S. industries. These "probable effects" studies are done on a detailed, tariff-line basis.

The Commission has already received a number of Congressional and Presidential requests directly related to the MTN for studies under section 332. Six industry competitiveness studies have been completed for the Senate Finance Committee on the competitive strengths and weaknesses of key U.S. industries to determine issues which should be addressed in the MTN. Further, studies have been completed for the President, on (1) service industry trade problems and (2) the degree to which intellectual property rights protection are provided by our trading partners. In addition to requests of this sort, the Commission will receive a major Presidential request for probable economic effects advice on any proposed tariff cuts and non-tariff barrier concessions under the MTN. Because this advice is requested at a detailed tariff item level, the demands of such an investigation are always great. This request cannot be formally made until legislation is passed giving the President tariff reduction authority for the new round, however preparatory work that would assist the USTR has been initiated in the Commission on this project. This study, will constitute the single most comprehensive analysis undertaken by the Commission in recent years. Further, a separate request is anticipated for analysis of U.S. services industries in connection with the MTN negotiations.

In addition to these formal requests for information, major trade events such as an MTN result in significant increases in general inquiries or technical assistance requests from the Congress, other agencies, and the public. The Commission anticipates that the demands placed on it by the MTN can be met with the proposed budget.

INVESTIGATIVE WORKLOAD
(Cases Initiated)

06-Jun-88

	FY 1987 Actual	FY 1988 Current Projection	FY 1989 Current Projection
Import injury, sections 201, 203, & 406, TA of 1974---	4	2	2
Interference with Agricultural programs, Agricultural Adjustment Act------	0	0	0
Antidumping, title 7 Tariff Act of 1930-------	43		
Countervailing duty title 7 Tariff Act of 1930------	56		
Total----	99	60	75
Unfair import practices: Section 337, Tariff Act of 1930, and section 603, TA of 1974----------	20	16	21
Probable effect of concessions or preferential duty-free treatment, TA of 1974----------	2	1	3
Pursuant to section 332, Tariff Act of 1930--------	11	1/ 12	2/ 18
Total	136	91	119

1/ Industries- 8; Economics- 3; and Tariff Affairs and Trade Agreements- 1.
2/ Industries- 14; Economics- 3; and Tariff Affairs and Trade Agreements- 1.

Question:

11. In its 1987 survey report on ITC operations, GAO suggested that ITC seek relief from certain external reporting requirements, and that for reports that principally represent an information service for a specific industry rather than the government, ITC should consider eliminating them or curb their frequency and examine the appropriateness of charging for such reports. In the budget request, you project an approximate 50% increase for recurring reports and services for FY 1989 ($4,984,000) over the FY 1987 level ($3,481,000).

    --Have you eliminated any of these reports since GAO's review?

    --Have you formulated or implemented a policy of charging for any reports that primarily benefit a single industry?

Response:

As a result of the GAO recommendations the Commission has identified each of the recurring reports prepared by the Commission and asked for staff recommendations concerning their continued need, as well as concerning a possible reduction in their frequency.

We have also initiated discussions with the executive branch and with the Ways and Means and Finance Committees concerning those studies done in response to their requests.

At the time of the GAO study, there were 14 recurring reports produced by the Commission. Of these 14 reports, three have been terminated since the GAO study: the broom report, the mushroom report, and the heavyweight motorcycle report. In addition, the frequency of the stainless and alloy tool steel report has been reduced from a quarterly and annual report to an annual report only.

The remainder of the studies have continued in the same format and frequency while we review staff recommendations and continue discussions with the committees and the executive branch concerning additional changes, including elimination of some of the reports, a reduction in frequency of some of the reports, and charging user fees.

The Commission has not yet implemented a policy of charging for reports that primarily benefit a single industry. We have begun discussions with other agencies which have implemented such charges and with Congress and the Executive Branch over the concept as it applies to Commission reports instituted in response to their requests.

The reports identified by the GAO were the Broom Report, initiated by Presidential Proclamation in 1976, and terminated by Executive Order of the President on September 14, 1987, following discussion between the ITC and the Administration; the Processed Mushroom annual statistical report, which was terminated in September 1987, pursuant to the sunset date provided for in the original Presidential request for the study; Rum: Annual Report on Selected Economic Indicators, which will continue, pursuant to the Caribbean Basin Economic Recovery Act (CBERA), until September 30, 1995; and the Annual and Quarterly Synthetic Organic Chemical Report (SOC Report), which dates back to 1917.

Following a mid-70's effort on the part of the Commission to discontinue the SOC Report, Congress requested the Commission to continue it through 1980. From 1981 to the present, the Commission has self-initiated this report. The Commission paid GPO $4,369 to print, for the Commission's use, 2,000 copies of this year's annual SOC report. The Commission prints the quarterly report. Approximately 2,000 copies of each quarterly and annual synthetic organic chemicals reports (SOC reports) are distributed free of charge by the Office of Industries. The quarterly reports are approximately four pages long. The annual report averages 350 pages. Approximately 754 parties receiving copies of the report supply the information needed to produce the report. Some questionnaire respondents ask for and receive free of charge multiple copies of the report. In addition the GPO has sold the following copies of the SOC Report:

Year	Price	Amount Sold	Amount Printed
1983	$ 9.50	689	746
1984	12.00	610	775
1985	19.00	550	600
1986	16.00	393	600

Following the special mention of this report in the GAO study, The ITC has received 16 letters from Members of Congress requesting that we continue publication of this report.

One of the letters in support of the SOC Report received by the Commission was from Sam Gibbons, Chairman of the Ways and Means Subcommittee on International Trade. Mr. Gibbons requested that the Commission continue this study on an annual basis under the statutory provisions of 332 (g) of the Tariff Act of 1930. Mr. Gibbons cited the importance of this study as a source of information and analysis for numerous U.S. chemical companies and a number of U.S. Government agencies. He further stated that the Commission is in a unique position to collect the information contained in the SOC reports and to disseminate the information as widely as is now the case. In responce to this request, the Commision will continue to produce these reports.

BOARD FOR INTERNATIONAL BROADCASTING

Questions Submitted by Senator Warren Rudman

Question. Section 621 of the Treasury, Postal Service and General Government Appropriations Act, 1988, provides that "each Executive agency detailing any personnel shall submit a report on an annual basis in each fiscal year to the Senate and House Committees on Appropriations on all employees or members of the armed services detailed to Executive agencies, listing the grade, position, and offices of each person detailed and the agency to which each such person is detailed." The statement of the managers accompanying this Act further states, "The Conferees expect these reports on detailees to be submitted to the Committees concurrently with the President's annual budget submission to the Congress." Further information on this requirement can be found on pages 446-447 and page 1177 of the conference report on H.J. Res. 395.

Please provide this report for the record.

Answer. No employees of the Board for International Broadcasting are currently detailed to other Executive agencies.

Question. Please provide a comparison of funds originally requested to implement the Federal Employee Retirement System (FERS) in FY 1988 with the current projections, as well as with the FERS request for FY 1989.

Answer. BIB's original estimate of the funds necessary to implement FERS in FY 1988 was $33,000. The current projection is $32,000. BIB's estimate of the funds required for FERS implementation in FY 1989 is $33,216.

Question. Please provide a priority listing of the program increases requested for fiscal year 1989, as well as a justification for the rankings.

Answer. The Board for International Broadcasting's FY 1989 budget request is 3.7% higher than the amount appropriated in FY 1988. This increase is less than the 3.8% GNP deflator used by most agencies for minimum domestic inflationary costs. This 3.7% increase will not cover the overseas inflationary cost increases that Radio Free Europe/Radio Liberty will experience in FY 1989, and no program increases are requested. The BIB's administrative budget includes one program increase of $16,850 for potential lease costs not included in FY 1988

Question. The budget request of the Board for International Broadcasting is based on exchange rates of 1.64 West German Marks, 133.50 Portuguese escudos and 110.35 Spanish pesetas to one dollar. What are the current rates? If different, and if the current rates extend through FY 1989, what changes will be necessary

in the BIB appropriation in order to sustain the requested program level?

Answer. The current exchange rates are 1.665 West German Marks, 135.90 Portuguese Escudos and 110.15 Spanish Pesetas to one dollar. Because the current and budgeted rates are so close, if the current exchange rates extend through FY 1989, no additional appropriation will be required to sustain the requested program level.

Question. The Board is requesting $377,000 for object class 25, other services. Please provide a breakdown below the full object classification, as well as a listing of consultant contracts in 1988 and projected consultant contracts in 1989.

Answer. Within object class 25, Other services, are the following categories and amounts in BIB's FY 1989 request:

Commercial Vendors	$56,000
Maintenance Services	20,000
Official Representation	6,000
Audit of Grantee	135,000
Program Evaluators	40,000
Technical Services	23,000
Agreements with other agencies (support services, security clearances, IG audit, health unit, training, etc.)	99,000
TOTAL	$377,000

The BIB administrative expenses budget does not include funding for any consultants. However, BIB does contract with a variety of individuals and firms to provide specialized reports, documents, and other services.

As part of its ongoing oversight of RFE/RL's programs, BIB contracts each year with a number of evaluators who listen to original programming of the different language services and produce reports summarizing their findings and making recommendations. Most of the following individuals receiving contracts in FY 1988 will probably not be asked to evaluate programs in FY 1989 because different language services are evaluated each year and evaluators must be fluent or near fluent in the language, very knowledgeable about the area's history and culture, and have specialized academic or journalistic credentials.

Anthony Austin	3,500
Andrew Janos	3,500
Peter Reddaway	3,500
Owen Johnson	3,500
Vojtech Mastny	3,500
Joseph Skvorecky	3,500
Other	19,000
Total	40,000

Other contracts for specialized services in FY 1988 include:

Arthur Anderson, Inc.(audit)	135,000
Boyd Harris	1,600

We estimate that the FY 1989 audit will cost approximately the same amount and will be performed by a major private accounting firm.

Question. RFE/RL, Inc. is projecting an increase of $2,725,000 for annual salaries for permanent employees in 1989. This includes salary increases of 10% in West Germany and 6% in Portugal and Spain. What are the reasons for the comparatively large increases overseas compared to the 2% cost of living increase for American government employees? If these increases are the result of contracts signed with local employees, has RFE/RL attempted to renegotiate these contracts? If not, why not? What steps is RFE/RL taking to prevent such large increases in the future?

Answer. The projected salary increase of $2,725,000 for permanent employees provides for: a 2.5 % increase for employees in West Germany and the United States, 10% for local employees in Portugal and 6% for local employees in Spain; within-grade increases in accordance with union contracts and company policy for employees below the top of their grades; and annualization of the costs for 10 new USSR Nationalities broadcasting positions approved for funding in FY 1988.

RFE/RL functions as a private firm in European countries. Like any such firm RFE/RL must deal with unions and negotiate cost-of-living increases based on the economic trends of the countries in which it operates. The following table shows the West German Industry Record for wage increases:

Concluded settlements in		1986	1987	1988
*	Civil Service	3.5 %	3.4 %	2.4 %
**	Bavarian Radio	3.5 %	3.4 %	
**	Metal industry	4.4 %	3.7 %	
**	Printing industry	4.5 %	3.7 %	
**	Banks/insurances	4.2 %	3.8 %	
**	Newspaper editors		3.7 %	
	Magazine editors		3.7 %	3.5 %

* The Civil Service settlement was for 2.4 % plus reductions in working hours.

** Agreements for these Industries have not been concluded. Wage increases ranging from 3 to 4 % are expected.

In West Germany RFE/RL must generally conform with local norms for salary increases in order to satisfy its

collective bargaining responsibilities with four separate unions. The 3.1 percent settlement negotiated by RFE/RL with its four separate unions for 1988 compares very favorably with local norms and is in fact below settlements reached in comparable industries. In accordance with trends in Germany it is anticipated that the 1989 increases in German industry will range from 3 to 4 percent. RFE/RL's FY 1989 budget provides for a 2.5% increase.

Annual salary increases in Spain and Portugal are called for in the provisions of licensing agreements for operating in those countries. The salary increases are based on official cost-of-living statistics for those countries. In accordance with increases granted October 1, 1987 we anticipate that cost-of-living increases will be ten percent and six percent for Portugal and Spain respectively effective October 1, 1988. The ten percent and six percent estimates for wage increases for local employees in Portugal and Spain compare favorably with the State Department's estimates of its requirements for Foreign Service nationals in those two countries.

Question. Please provide a listing of RFE/RL consultant contracts in 1988 and projected consultant contracts in 1989.

Answer. The listing follows:

RFE/RL, INC.
Professional Services
FY 1988 - FY 1989
($000 omitted)

		FY 1988 Projected	FY 1989 Projected
Pension and Insurance Consultants			
Dr. Bode - Overseas Actuary	Munich, Germany	55	56
William M. Mercer, Inc. U. S. Actuary	Washingtion, New York	138	142
		193	198
Legal			
Lunde & Davis - Attorneys	New York	20	21
Cohn & Marks - Attorneys	Washington	51	52
Garrigues Walker - Attorney	Madrid, Spain	5	5
J. Gassiot - Attorney	Barcelona, Spain	1	1
Dr. Tito Arantes - Attorney	Lisbon, Portugal	7	8
Dr. Nuno Fonseca - Attorney	Lisbon, Portugal	8	9
Dr. Barreira de Carvalho - Attorney (Labor)	Lisbon, Portugal	5	5
Painho - Attorney	Lisbon, Portugal	1	1
Dr. Alfred von Hofacker - Attorney	Munich, Germany	75	77
Various attorney fees; Court costs	Munich, Germany	14	14
Porter & Dunham - Attorneys	Paris, France	12	12
Branger + Heritier - Attorneys	Paris, France	5	5
Warren & Murton - Attorneys	London, England	4	4
Adonnino-Ascoli - Attorneys	Rome, Italy	5	5
		213	219

		FY 1988 Projected	FY 1989 Projected
Protective Services			
Security Force at PALS	Spain	160	170
Security Force at Lisbon, Gloria and Maxoqueira	Portugal	314	345
Watchmen	Islamabad	4	4
DSW - Guard Service	Holzkirchen, Germany	49	50
DSW - Guard Service	Schleissheim, Germany	156	160
DSW - Guard Service	Munich, Germany	1,581	1,672
Wach. & Schliess Ges. - Guard Service	Lampertheim, Germany	240	246
Wach. & Schliess Ges. - Guard Service	Biblis, Germany	224	230
Security Services	Washington, D. C.	5	5
		2,733	2,882
Research & Evaluation			
Contractual Services with Public Opinion and Poling Institutes (Gallup, Intora, Sondage, Sauerberg, etc)	Finland; France; Israel; Vienna; Sweden	1,544	1,575
Engineering			
FCC Inter-agency study	Washington	50	50
WARC	Washington	10	11
Miscellaneous Services	Munich	19	20
		79	81

Administrative		FY 1988 Projected	FY 1989 Projected
Arthur Andersen & Co., Auditors	Washington	8	9
John Adams Associates - Consultants	Washington	24	25
Walter Roberts - Engineering Consultant	Washington	27	-
Doctors and Nurses Contract Work at Lisbon, Gloria, Maxoqueira	Portugal	36	40
Miscellaneous Services - Alves, Silva, Pais, Avelar, Basto, Rosa, Bivar	Lisbon, Portugal	26	28
Ernst & Whinney - Fiscal Consultants	Lisbon, Portugal	1	1
Figueiredo - Teletype Technician at Lisbon, Gloria, Maxoqueira	Portugal	4	4
Computer Software Services	Portugal	4	4
Computer Services	Paris, France	9	9
Roselyn Romberg - Computer Consultant	Paris, France	23	24
Fa. Vohburger Serv. - Delivers daily News Budget	Munich, Germany	25	25
Armored Car Service	Munich, Germany	1	1
Special Program Consultants	Munich, Germany	55	56
Software Licenses	Munich, Germany	42	43
Printing Services	Munich, Germany	5	5
Misc. Computer Software Services	Munich, Germany	50	51
TUEV Service	Munich, Germany	27	27
Edward van der Rhoer - Programming & Personnel Consultant	Munich, Germany	45	45
Dr. John Klensin - Computer Consultant	Paris, France	3	4
Janet Asancheyev - Computer Consultant	Paris, France	8	9
News Stringers	Europe	84	87
DSW - Transportation Services	Munich, Germany	141	144
Architectural Services	Munich, Germany	5	5
Miscellaneous Consultants	Munich, Germany	70	72
		723	718
TOTAL		5,485	5,673

Question: A total of $4,800,000 is being proposed for contract modifications for the Israel Radio Relay Station project. What is the nature of these contract modifications?

Answer. We have budgeted 2.4 million dollars each for FY 88 and FY 89 totaling 4.8 million under the subject heading of "contract modifications". The purpose of this budget allocation is to accommodate unforeseeable design changes, or for contingencies, which may result in contract modifications. For example, the road relocation plan may require rerouting due to disclosure of an archeological find in the path of the road. Also, pending a final design and bill of exact material and equipment to be used on the station, minor changes may be necessary in the facilities design to cope with exact equipment dimensions as specified by the designer.

Question. What will be the projected annual operating costs for the Israel Radio Relay Station once it is completed?

Answer. The projected annual operating cost for the Israel Radio Relay Station is composed of two major components. One component is the operational and maintenance services contract with TOMER, $6,040,342, for the first year after final acceptance of the facility. This is a firm fixed price contained in the operations contract with TOMER. The other component of the annual operating costs is the cost of utilities (electric power, water, waste management, gasoline, and oil) projected to be approximately $6,000,000 for the first year. These costs may require redetermination after the first year to allow for inflation and operational experience.

Question. What is the current vacancy rate in positions at RFE/RL? What vacancy rate or lapse rate is assumed in the FY 1989 budget submission?

Answer. The current vacancy rate in positions at RFE/RL is 1.6%. No lapse rate is assumed in the FY 1989 budget submission.

Question. Please provide a listing of merit awards or bonuses given to BIB employees in FY 1987 and FY 1988.

Answer. In FY 1987 BIB employees Bethann Gallagher, Bruce Porter, and Patricia Schlueter received merit awards or bonuses. In FY 1988 Barbara Floyd, Mark Pomar and Bruce Porter recieved merit awards or bonuses.

U.S. Arms Control and Disarmament Agency

Questions Submitted by Senator Warren Rudman

Military Detailees

Question. Section 621 of the Treasury, Postal Service and General Government Appropriations Act, 1988, provides that "each Executive agency detailing any personnel shall submit a report on an annual basis in each Fiscal year to the Senate and House Committees on Appropriations on all employees or members of the armed services detailed to Executive agencies, listing the grade, position, and offices of each person detailed and the agency to which each such person is detailed." The statement of the managers accompanying this Act further states, "The Conferees expect these reports on detailees to be submitted to the Committees concurrently with the President's annual budget submission to the Congress." Further information on this requirement can be found on pages 446-447 and page 1177 of the conference report on H.J. Res. 395.

Please provide this report for the record.

Answer. Below is a list of all military detailees assigned to ACDA as of May 1, 1988.

DOD Personnel
Detailed to
U.S. Arms Control and Disarmament Agency
(Current as of 1 May 1988)

NAME	DUTY TITLE	BUREAU/OFFICE
1. LTC William Ankley (USA)	Executive Secretary	Office of the Director
2. Col Ray Bills (USA)	Politico-Military Officer	Multilateral Affairs
3. LTC Frank Boyd, Jr. (USAF)	Politico-Military Affrs. Officer	Nuclear & Weapons Control
4. Cdr. Michael Brinck (USN)	Military Affrs Officer	Nuclear & Weapons Control
5. Ms. Linda Busser (DOD Civilian)	Admin Asst Nuclear Space Talks Delegation	Nuclear Space Talks Delegation
6. LTC Joseph Clare (USA)	Intl Politico-Military Affrs. Officer	Nuclear & Weapons Control
7. Col Bruce Clarke (USA)	Politico-Military Affrs. Officer	Strategic Programs

8. MSgt Valerie Daniel (USA)	Admin Asst to Nuclear Space Talks Delegation	Nuclear Space Talks Delegation
9. Col David Giddens (USAF)	Political Military Affairs Officer	Multilateral Affairs
10. Maj Terry Godby (USAF)	Intl Politico-Military Affrs. Officer	Strategic Programs Bureau
11. LTC Robert Godesky (USAF)	Intelligence Officer	Verification and Intelligence Bureau
12. Col William Golbitz (USAF)	Military Assistant to Chairman General Advisory Committee	General Advisory Committee
13. Cdr. Thomas Goodwin (USN)	Military Affrs Officer	Strategic Programs Bureau
14. Col James Granger (USMC)	Deputy Head Conference On Disarmament Delegation	Conference On Disarmament
15. LT Barbara Kent (USN)	Military Affairs Officer	Public Affairs Office
16. Maj David Kwan (USAF)	Politico-Military Affairs Officer	Verification and Intelligence Bureau
17. Maj John Nevins (USAF)	Politico-Military Affairs Officer	Strategic Programs Bureau
18. LTC Nicholas Palarino (USA)	Military Assistant to Ambassador Rowny	Office of the Director
19. Maj. Edward Rausch (USAF)	Special Asst to Senior Military Advisor	Office of the Director
20. LTC James Reams (USA)	Military Assistant to Ambassador Rowny	Office to the Director
21. LTC Terry Reid (USA)	Int'l Politico-Military Affrs. Officer	Nuclear Weapons Control Bureau
22. LTC William Richardson, USAF	Military Assistant to Ambassador Rowny	Office to the Director
23. Maj Guy Roberts (USMC)	Political-Military Affairs Officer	Multilateral Affairs Bureau

24. LCDR Robert Smith (USN)	Operations Analyst	Verification and Intelligence Bureau
25. LTC David Tanks (USA)	Political-Military Affairs Officer	Nuclear Weapons & Control Bureau

FERS

Question. Please provide a comparison of funds originally requested to implement the Federal Employees Retirement System (FERS) in FY-1988 with the current projections, as well as with the FERS request for FY-1989.

Answer. ACDA's initial FY-88 budget justification included an additional benefit requirement of $700,000 to implement the Federal Employees Retirement System (FERS) program. However, based on the revised rate of employer contribution to 12.5%, in accordance with OPM's payroll letter #87-11 dated July 10, 1987, ACDA has reduced its incremental benefit costs to $582,000 for FY-88 and $800,000 in FY-89.

Administrative Expenses

Question. In FY-1989 the Arms Control and Disarmament Agency is requesting $12,444,000 for "other services". Please provide a detailed breakdown of this request.

Answer. This line item contains:

STATE/ACDA reimbursable agreements for Administrative Support both here and overseas	3,318
STATE/ACDA Geneva Allotment	3,659
GSA/ACDA accounting/personnel	141
LABOR/ACDA compensation	109
misc. contractual services	104
Computer support/security	1,544
RERTR	2,200
External Research	1,130
OPM/ACDA investigations	139
FSI/training	45
Representation	55
Total	12,444

RERTR

Question. ACDA is requesting $2,200,000 for the Reduced Enrichment in Research and Test Reactor program (RERTR) in FY-1989. How and where will these funds be used? What are the outyear costs associated with the program and when will it be completed?

Answer. ACDA will transfer funds to DOE for RERTR for work that will be accomplished at Argonne National Laboratory. ACDA and DOE will coordinate closely on program policy guidance and implementation, with ANL being responsible for managing the

day-to-day activities of the program. The objectives of the program are:

(a) developing and demonstrating new high density low enriched uranium (LEU) fuels which can be substituted without significant economic and technical penalties for the HEU fuel now required;

(b) developing generic data and calculational methods required to analyze the reactor engineering and safety performance characteristics of the reactors operating with the new LEU fuels;

(c) providing technical assistance and support to foreign reactor operators to analyze the effects of converting their facilities to LEU fuels;

(d) establishment of a database reflecting the status of research and test reactors core conversion efforts and the related U.S. involvement.

The RERTR program with its reduced program of work due to funding restrictions is in the last phase and is scheduled for completion in FY-1990. The final request for FY-1990 is expected to be $1.2 million dollars.

Impact of Dollar Devaluation

Question. What are the foreign currency losses projected to be for ACDA operations in FY-1988? What are the foreign currency rates used to prepare the FY-1989 budget? How do these rates compare to current estimates?

Answer. At the time ACDA prepared its initial FY-88 budget justification to OMB the exchange rate was SF 1.64 to $1.00 and the per diem rate was $126/day in Geneva. Currently, the exchange rate is running between SF 1.3 to SF 1.4 to the dollar and the per diem rate in $160/day in Geneva. Therefore, ACDA estimates its FY-88 shortfall due to exchange rate losses to be approximately $940,000. Because ACDA has to absorb these foreign currency losses and the additional costs related to the accelerated pace of the negotiations in Geneva, we are realizing a significant strain on our limited financial resources. As a result, our Administrative Director has already encouraged the bureau and office heads to limit expenditures to essential procurement and program activities only. ACDA is also reviewing the following areas for potential savings: (a) personnel compensation; (b) reimbursable detailees; (c) maintenance accounts; (d) Geneva operation; (e) computer network; and (f) miscellaneous expenditures such as travel, supplies, ovetime, etc.

For FY-89, ACDA used an exchange rate of SF 1.5 to $1.00 and a per diem rate of $156/day in preparing its budget justification. This still indicates a potential shortfall of between 8 to 12% against expenditures related to the Geneva operation as requested in our FY-89 Congressional Budget Submission.

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